Turning Point

INCO

1999 Annual Report

Inco at a Glance

CORPORATE PROFILE

Inco Limited is one of the world's premier mining and metals companies and the western world's largest producer of nickel. In addition, it is an important producer of copper, precious metals and cobalt. In 1999, Inco employed 10,198 people in 14 countries. Sales revenue totalled $2.1 billion in 1999.

STRATEGIC OVERVIEW

Goal: To become the lowest-cost and most profitable nickel producer in the world.

Strategy:
1. Reduce the cost base of current operations.
2. Develop new low-cost orebodies.
3. Emphasize growth of value-added nickel products.

CORE ASSETS

	Division/Unit/Subsidiary	Products/Minerals	Primary Applications
	Ontario Division		
	Copper Cliff, Ontario Port Colborne, Ontario	Finished nickel, copper, cobalt and precious metals, sulphuric acid and liquid sulphur dioxide.	Stainless steel, melting applications, high-nickel alloys, plating and specialty products.
	Clydach Refinery Swansea, Wales	Finished nickel and value-added nickel products from Canadian feed and cobalt oxide.	Same as Copper Cliff.
	Acton Refinery London, England 100% owned	Platinum-group metals from Canadian feed and from toll-refined materials.	
	Manitoba Division Thompson, Manitoba 100% owned	Finished nickel and cobalt oxide.	Plating and melting applications.
	PT International Nickel Indonesia Tbk (PT Inco) Soroako, Indonesia 59% owned	Nickel in matte.	Nickel in matte to Inco TNC Limited and to Sumitomo Metal Mining Co., Ltd.
	Goro Nickel S.A. Noumea, New Caledonia 85% owned	Nickel-cobalt laterite ore. Decision on commercial production scheduled for late 2000.	
	Voisey's Bay Nickel Company Limited St. John's, Newfoundland and Labrador 100% owned	Nickel-copper-cobalt sulphide ore. Decision on commercial production subject to reaching agreement with the Province of Newfoundland and Labrador.	
	Inco Special Products Toronto, Ontario 100% owned	Nickel powders, foams, oxides, flakes, coated particles and fibres.	Consumer electronics, rechargeable batteries, fuel cells, powder metallurgy, automotive parts, EMI shielding for computers and cellular telephones, special catalysts and salts and metal injection moulding.
	Inco TNC Limited Tokyo, Japan 67% owned	Finished nickel products for stainless steel refined from PT Inco matte.	Stainless steel.
	Jinco Nonferrous Metals Co. Ltd., Kunshun People's Republic of China 65% owned	Nickel salts for plating.	Plating applications for consumer products.
	Taiwan Nickel Refining Corporation, Kaohsiung, Taiwan 49.9% owned	Finished nickel products for the Taiwanese stainless steel industry.	Stainless steel.
	Korea Nickel Corporation Onsan, Republic of South Korea 25% owned	Finished nickel products for the South Korean stainless steel industry.	Stainless steel.

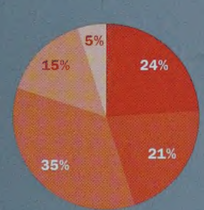
MARKET PRESENCE

- Inco has a 24 per cent market share in the world nickel industry and maintains a strong marketing presence in the primary nickel-consuming regions of the world.
- Nickel is one of the world's most versatile and useful metals with an expanding range of consumer and industrial applications.

INCO NICKEL DELIVERIES BY REGION (1999)

USA
Japan
Other Asia
Europe
Other

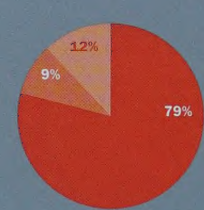
Total deliveries include purchased nickel.



INCO REVENUES BY PRODUCT (1999)

Nickel
Copper
Other

Includes revenues from purchased nickel, copper and cobalt. Nickel revenues include any applicable hedging gains or losses.



1999 COMMON SHARE TRADING INFORMATION

Stock Symbol: N	Quarter	Share Trading Volume (in millions)	Share Price High	Share Price Low
Toronto Stock Exchange	First	50	Cdn.$22.90	Cdn.$15.65
	Second	59	28.85	19.55
	Third	60	34.50	24.35
	Fourth	51	33.75	27.00
		220		
New York Stock Exchange	First	31	U.S.$15.06	U.S.$10.56
	Second	42	19.94	13.19
	Third	51	23.50	16.25
	Fourth	36	23.50	18.38
		160		

Throughout this annual report all dollar figures are shown in U.S. dollars unless otherwise noted.

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Inco at a Glance >

We are making great progress toward our goal of being the world's lowest-cost and most profitable nickel producer. In 1999, we aggressively reduced costs at existing operations for the second consecutive year, increased our low-cost production capacity and accelerated growth in our specialty nickel products business. Our progress is reflected in improved financial results and confidence among our people in embracing change and innovation to maintain our global industry leadership.

We are confident that, after several challenging years, Inco has reached a turning point and is positioned for a brighter, more profitable future.

Leveraging Market Conditions

Nickel has excellent long-term growth prospects. Our focus is on making the most of these new opportunities for growth. As global competition from other producers intensifies, we are strengthening our ability to adapt to market conditions that are more volatile than ever. The underlying dynamics and economics of our industry are also changing. For example, 1999 marked a dramatic upswing in the nickel price cycle. Cash nickel prices on the London Metal Exchange (LME) more than doubled during the year to $3.83 per pound ($8,450 per tonne) by year-end, which had a considerable impact on our business since we sell all of the nickel we produce. For every $0.10 per pound increase in realized nickel prices over a full year, our earnings increase by $0.15 per common share. By year-end, LME nickel inventories had declined, year-over-year, by 29 per cent to 46,962 tonnes, which helped spur price increases. We expect to see strong growth in nickel demand in 2000. Much of that growth will come in markets where Inco already has a strong presence, notably in Asia, which will continue to require new infrastructure and consumer products using nickel. We also expect to see strong continued growth in specialty nickel markets for value-added products such as consumer and industrial battery applications and in the semiconductor industry where Inco is already a strong player and committed to market leadership.

Inco's competitive edge is honed on several key strengths: developing new low-cost properties like New Caledonia (top); growing our reserve base through exploration at existing sites such as PT Inco (bottom right); and expanding our value-added nickel products business. Products in high demand include nickel pellets produced at our Clydach Refinery (middle left) as well as nickel powders and foams, used in everything from cell phones and high voltage power tools (bottom left) to new hybrid and electric vehicles.

Reducing Our Costs

Our cost reduction initiatives have yielded impressive results. In February 1998, we set an original goal of $165 million in permanent annual cost reductions by the end of 1999. From the start, our employees embraced our cost reduction program, finding new and innovative ways to strengthen our business. By the end of 1999, we achieved $235 million in annual cost reductions and, as a result, we have substantially exceeded our original target and increased our goals and are driving toward at least $250 million in annualized savings for 2000. In 1999, we lowered our nickel cash production costs after by-product credits by 26 per cent to $1.26 per pound, compared with 1997. Both the Ontario and Manitoba divisions reduced net unit cash costs by 28 per cent and 21 per cent, respectively, over the same period. At PT Inco in Indonesia, cash costs came down by 10 per cent over the same period. Meeting our objectives has taken a lot of hard work. We closed, or are phasing out, unprofitable mining operations. Since 1997, we have reduced our workforce by 29 per cent primarily through retirements and divestitures of non-core businesses. We streamlined management and reduced administrative and support costs. We also concentrated our efforts on increasing nickel recoveries. Since 1997, nickel recoveries in Ontario are up by 4.5 percentage points. We sharpened the focus and improved the efficiency of our Exploration, Research and Development programs. At virtually every operation, we initiated substantial improvements by encouraging synergies among business units and by fundamentally changing the way we do business. Today, Inco is one of the lowest-cost producers in the nickel industry.

From telemining to energy costs, Inco is studying every opportunity to reduce costs to gain a competitive edge. Advances such as telemining (bottom and top left) have the potential to improve our productivity and employee safety. Reducing energy costs is also a priority across the Company. Employees at our hydroelectric facilities at PT Inco (top right) and our Sudbury oxygen plant (middle right) are all involved in implementing innovative methods to reduce energy costs.

Growing Low-Cost Production

Inco is a growth company. We believe our ability to grow low-cost, profitable production from our portfolio of properties around the world gives us a competitive advantage. PT Inco is already among the lowest cost producers in the nickel business. Our major nickel development properties at Goro and Voisey's Bay have the potential to set world standards for low-cost production. Development of the Voisey's Bay deposit – one of the best in the world – has been postponed because we were not able to reach an agreement with the Government of Newfoundland and Labrador to proceed with the development of the project. Meanwhile, we are proceeding aggressively with our other major growth projects. The completion of the $633 million expansion at PT Inco, our Indonesian subsidiary, is a major highlight. This expansion has increased the annual capacity of that operation by 50 per cent to 68,000 tonnes (150 million pounds) of nickel in matte. When full operating rates are achieved, PT Inco's unit cash costs are expected to be in the area of $0.90 per pound. In Goro, New Caledonia, our pilot plant was officially launched in October, part of a $50 million process development program. The plant is testing Inco's proprietary pressure acid leach and solvent extraction technologies to treat the high quality laterite ore. The Goro deposit has an average resource grade of 1.6 per cent nickel, some 40 per cent higher than the laterite ores in major new development projects in Australia. In late 2000, we will be in a position to determine the feasibility of a commercial plant at Goro. The plant would have net cash production costs estimated at less than $1.00 a pound, assuming a cobalt selling price of $7.00 a pound. In our Manitoba and Ontario divisions, which account for half of our ore reserves, we continue to explore low-cost developments at the Birchtree Mine in Manitoba and the McCreedy East Mine, Totten, Victor Deep and Kelly Lake deposits in Ontario.

Our pressure acid leach/solvent extraction technologies (top, bottom right) are being tested in New Caledonia to determine the feasibility of a commercial operation for this large laterite nickel resource. Achieving low-cost growth also involves developing new discoveries at our Canadian operations, such as Totten Mine (bottom left), and expanding PT Inco's hydroelectric facilities to increase low-cost profitable production.

Building Our Specialty Products Business

Specialty nickel products are a big part of Inco's future. Accounting for approximately 13 per cent of 1999 nickel sales revenue, and doubling over the last 10 years, specialty products sell at premium prices and are less sensitive than commodity nickel to volatility in world prices. Growing specialty nickel products is an opportunity to add value to our nickel resource while improving overall profitability. Toward the end of 1999, we consolidated our activities in specialty products into a new business unit, Inco Special Products. This business is responsible for the development and marketing of a wide range of nickel products, including powders, foams, flakes, oxides, nickel-coated graphite and carbon fibres, as well as other advanced value-added products. Two of their largest end-use applications – cellular telephones and portable power tools using rechargeable nickel batteries – are growing at about 20 per cent annually. The emerging market for electric and hybrid vehicles also represents a major opportunity. We are working closely with the producers of nickel batteries used in most of the new battery-powered vehicles coming onto the market. Specialty nickel products are developed at our research laboratory in Mississauga, Canada and are manufactured, using Inco's gas decomposition technology, at facilities in Sudbury, Canada and Clydach, Wales. In 1999, we commissioned a $14 million expansion at Clydach to increase our capability to produce nickel foam and to serve these important growth markets. Our target is to double our sales of specialty products to $400 million by 2004.

Specialty nickel products distinguish Inco from other nickel producers. Nickel foam and nickel-coated fibres are both produced at our Clydach Refinery. These products are used in an increasing range of everyday applications. Durability and strength from the effective use of nickel-coated fibres are added features of the golf club shown at top left. We are working with our customers to apply our strengths in technology and product development to create innovative value-added products.

Improving Financial Performance

Inco invented the nickel industry as we know it. Over the decades, we have continuously renewed our business by addressing changing market realities and increasing competition. Our operating environment is complex and capital intensive, with increasing emphasis on investments in technology, research and development. The global competition for capital requires a strong focus on financial performance to attract investment capital and deliver acceptable shareholder returns. These developments have shaped our strategy and moved Inco toward maximizing cash flow and earnings and improving overall financial flexibility rather than focusing on production volume and market share. All areas of the business – an existing mining operation, a new mine development, or an exploration project – must meet tough criteria for financial returns on invested capital. Every operation is responsible for managing its business over the course of a price cycle. And this message is at the core of our corporate culture as it evolves. In 1999, we started an "Understanding Our Business" program designed to help our employees better understand the nickel industry and their individual role in our business. This program is being rolled out across the Company in 2000. Our goal is to create a broad awareness throughout Inco of our strategy, goals and commitment to the financial benchmarks of success.

From the mine site to the research lab, our employees are actively involved in changing the way we work today. Helping them learn more about Inco's business strategy and our competitive position in the nickel industry is an important part of a company-wide "Understanding our Business" program (top). At our J. Roy Gordon Research Laboratory in Mississauga, Canada (bottom right), we are focused on developing new processes and technologies to enhance our financial performance. The $125 million Creighton Mine expansion (bottom left) underscores the importance of existing Canadian operations to our financial success.

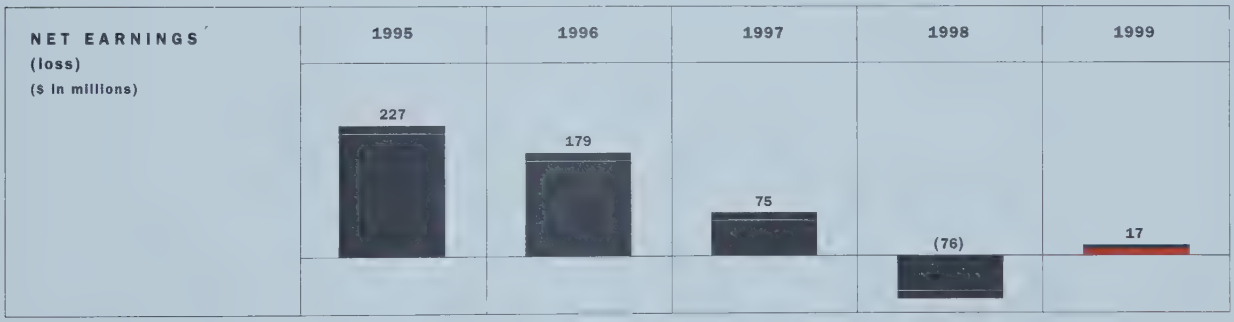
Performance Scorecard

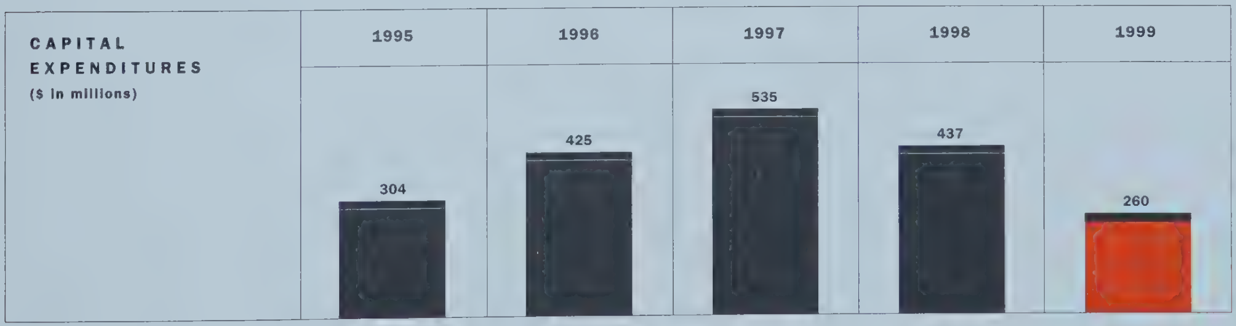
In last year's annual report, we set out a number of key objectives for corporate performance. The 1999 Performance Scorecard tracks our progress against those major objectives and establishes our key priorities for the year ahead.

1999 MAJOR OBJECTIVES	1999 PERFORMANCE	2000 MAJOR OBJECTIVES
1. Improve Inco's profitability and cash flow.	Operating earnings increased by $215 million while cash flow from operating activities declined by $46 million.	Continue to improve profitability and increase cash flow from operating activities while maintaining our lowest quartile cost position among nickel producers.
2. Continue to reduce cash production costs and realize additional cost savings toward our goal of sustainable annual savings of $215 million.	Cash production costs decreased by 12% to $1.26 per pound, net of by-product credits, compared with 1998. Realized annual savings of $235 million, $20 million above the revised 1999 target of $215 million.	Achieve further cost reductions toward our goal of at least $250 million. Focus on increasing cost reduction and operating efficiencies at PT Inco.
3. Complete the PT Inco expansion in Indonesia.	Achieved in the fourth quarter, increasing annual production capacity by 50% to 68,000 tonnes of nickel in matte.	Ramp up to full production capacity.
4. Complete construction of and begin operating the Goro pilot plant in New Caledonia.	Pilot plant opened in October as part of a $50 million program using a leading-edge hydrometallurgical process.	Confirm hydrometallurgical technology. Late in the year, determine the feasibility of proceeding with a commercial operation.
5. Seek progress on the development of the Voisey's Bay deposit on a technically and economically feasible basis.	Environmental Impact Statement was approved. Held extensive negotiations with the Newfoundland and Labrador government during the second half of the year but could not reach an agreement. Developed project framework, including: $500 million mine/mill operation of 6,000 tonnes per day; $125 million R&D program; and $65 million underground exploration program. The Inco proposal was not accepted by the provincial government.	Continue exploration in Labrador. Pursue research into hydrometallurgical process. Continue to actively pursue development concepts for the project.
6. Further expand our successful value-added specialty nickel products business.	Launched the Inco Special Products business unit in December. Start-up of a $14 million expanded nickel foam production line at Clydach, Wales.	Increase specialty product revenues toward our goal of doubling revenues to $400 million by 2004.

Financial Highlights

U.S.$ in millions (except per share data)	1999	1998	1997
FINANCIAL RESULTS			
Net sales	$ 2,113	$ 1,766	$ 2,367
Operating earnings (loss)	$ 180	$ (35)	$ 218
Net earnings (loss)	$ 17	$ (76)	$ 75
Cash provided by operating activities	$ 128	$ 174	$ 243
Capital expenditures	$ 260	$ 437	$ 535
Return on year-end common shareholders' equity	–	–	1.3%
FINANCIAL POSITION			
Total assets	$ 7,369	$ 7,342	$ 7,772
Common shareholders' equity	$ 3,384	$ 3,112	$ 3,225
Total debt	$ 1,344	$ 1,523	$ 1,549
Total debt:equity ratio	23:77	26:74	26:74
DATA PER COMMON SHARE			
Net earnings (loss)	$ (0.05)	$ (0.63)	$ 0.25
Dividends	$ –	$ 0.10	$ 0.40
OTHER INFORMATION			
Employees at year-end	10,198	11,007	14,278
Common shareholders at year-end	22,481	23,401	23,382





SCOTT M. HAND
President

MICHAEL D. SOPKO
Chairman and Chief Executive Officer

Performance, Strategy and Outlook

Nineteen ninety-nine was a challenging year for our company and the nickel industry. By year-end, nickel prices had rebounded impressively and our cost structure and financial performance had improved significantly. We are encouraged by the gains achieved through our company-wide restructuring and cost reduction initiatives over the last two years. We are now better positioned to take advantage of LME cash nickel prices that more than doubled by year-end to $8,450 per tonne ($3.83 per pound) from a low of $3,725 per tonne ($1.69 per pound) in 1998. We are focused on our three-part strategy to address the historical volatility of the nickel business and intensifying competition from other producers.

Our strategy is to:

- relentlessly reduce the cost base of existing operations;
- develop new low-cost orebodies;
- aggressively grow value-added specialty nickel products.

Our major 1999 achievements are summarized in the "Performance Scorecard" on page 12. Building on our progress over the past several years, Inco is committed to maintaining global leadership in the nickel industry. As an integrated nickel producer with a 24 per cent world market share, we have a considerable presence in the major nickel-consuming markets – Asia, North America and Europe. As a reliable supplier of quality nickel products, we serve a diverse customer base from our worldwide network of production facilities.

Our competitive strengths are significant:

- Our ore reserve base provides a secure, low-cost source of nickel for our processing operations. We have 458 million tonnes of proved and probable reserves, more than any other producer in the western world, with an average nickel grade of 1.67 per cent.
- Our leading-edge technologies enable us to mine and process our ores efficiently and to develop specialty nickel products that sell at premium prices. This strength differentiates us from the competition and enhances our overall performance while cushioning our exposure to volatile price fluctuations in commodity nickel markets.
- Our operating costs continue to decline. We are among the lowest cash cost producers in the nickel industry, having exceeded our cost reduction targets well ahead of schedule in the past two years. This enabled us to set even more aggressive but achievable goals. Our cash nickel production costs, after by-product credits, were $1.26 per pound for 1999, down from $1.43 per pound the previous year.
- Our major property at PT Inco, our Indonesian subsidiary, and development at Goro on the island of New Caledonia in the South Pacific will enable us to grow with low-cost, profitable production well into the future.

1999 FINANCIAL RESULTS

Our financial performance improved in 1999, attributable to our continued progress on cost reduction and improved market sentiment that led to rising nickel prices in the fourth quarter. Compared with 1998, Inco reported net sales of $2,113 million for the year, a 20 per cent increase. Net earnings were $17 million, or a loss of $0.05 per common share after preferred dividends. During the year, Inco strengthened its financial position, lowering its debt by $179 million to $1,344 million and improving the debt to equity ratio to 23:77 at the end of 1999 from 26:74 at the end of 1998.

The improvement in our operating earnings is attributable to significantly higher realized nickel prices and lower unit production costs

The improvement in our operating earnings is primarily attributable to significantly higher realized nickel prices and lower unit production costs, partially offset by a pre-tax charge of $40 million associated with extended annual vacation shutdowns at our Canadian operations and the expenses arising from the three-month work stoppage at the Manitoba Division. Our average realized nickel price in 1999 was $2.91 per pound, seven per cent above the average LME cash nickel price, and a 21 per cent increase over the 1998 average realized price.

MARKET CONDITIONS: IMPROVING BUT VOLATILE

Only a year ago, negative sentiment in the nickel industry created one of the worst markets in recent times. The Asian financial crisis, high Russian nickel exports and the threat of low-cost competition from the new Australian laterite producers created the impression of an imminent global nickel surplus. In 1999, those concerns eased considerably. Several production disruptions in the western world occurred. The new Australian producers experienced start-up delays while established producers reduced production and Russian nickel exports stabilized. And the Asian economies, particularly Japan, Taiwan and South Korea, recovered. Strong demand for stainless steel, which accounts for about two-thirds of nickel demand, grew by about 5.6 per cent in the western world and remained particularly buoyant in China. Stainless steel scrap, an alternative source of nickel for some uses, was also in short supply. As a result, western world demand for primary nickel returned to historical long-term growth levels of about four per cent in 1999, with western world demand estimated to have exceeded supply by 30,000 tonnes.

BUSINESS HIGHLIGHTS

Our company-wide cost reduction programs, initiated in early 1998, are significantly improving our operational efficiency and competitiveness. We have been able to raise our target to at least $250 million in permanent annual savings by the end of 2000 from $165 million when we launched the program. Our people across the Company have worked together to improve the way we do business. By year-end 1999, we had permanently eliminated a total of $235 million in annualized costs. Workforce reductions, the closure of uneconomic mining operations, breakthrough activities and continuous improvement were critical to our success. Our Garson Mine in Ontario and Birchtree Mine in Manitoba continue to set an Inco standard for cost reduction and improved efficiency.

While cost reduction, profit and cash flow will always be a priority across Inco, our focus now is, increasingly, on growing low-cost, profitable nickel production and expanding the market for our specialty nickel products.

Key achievements in 1999 include the following:

- PT Inco completed a major expansion to increase its low-cost production capacity by 50 per cent to 68,000 tonnes (150 million pounds) of nickel in matte from 45,000 tonnes (100 million pounds). This expansion includes a new 93-megawatt hydroelectric facility. PT Inco is moving toward full production capacity, now that rainfall is returning to normal annual levels after three years of drought, which limited hydroelectric generating capacity. At its expanded capacity, we expect PT Inco to be even more competitive, with unit cash costs of about $0.90 per pound. PT Inco boasts sizeable nickel resources to sustain its existing operations in Soroako on the island of Sulawesi. Over the years, our Company has established a reputation as a good corporate citizen in Indonesia and our operations are, and we expect will continue to be, substantially unaffected by the political unrest in other parts of the country. With Indonesians making up most of our workforce at PT Inco, we are proud of our contributions to the social and economic fabric of the Soroako community and to Indonesia.

- The opening of the pilot plant at our 85 per cent-owned Goro nickel-cobalt property, part of a $50 million program, is a major part of our growth strategy. Goro has the potential to be one of the world's largest and lowest-cost nickel operations. It could be developed using low-cost open pit mining methods and Inco's proprietary pressure acid leach and solvent extraction technologies. Given an attractive investment climate in New Caledonia and a motivated, well-educated workforce, we are optimistic about the development potential of this property. Goro's ore grades are about 40 per cent richer than competing laterite operations in Australia. Total resources at Goro, including 47 million tonnes of ore reserves, exceed 260 million tonnes, averaging 1.6 per cent nickel and 0.18 per cent cobalt. We expect to make a decision on commercial production later this year.

Cost reduction remains a priority and our focus is increasingly on growing low-cost profitable nickel production

- In Ontario, our geologists are discovering new mineralization near existing mines. Our goal is to find and develop high-grade nickel deposits that can be mined at low cost. In the Sudbury Basin, we discovered 8.4 million tonnes of new ore reserves in 1999, averaging 1.6 per cent nickel and 1.3 per cent copper, both higher than the Ontario Division's current average ore reserve grade of 1.3 per cent nickel and 1.2 per cent copper. At Totten Mine, which has been on standby since 1970, Inco geologists, employing the latest geophysical techniques, discovered a new high-grade zone of nickel, copper and platinum-group metals. This new zone is readily accessible from Totten Mine's existing shaft. We are accelerating exploration at Totten and are confident that this high-grade deposit can be developed at low cost. In addition, a $125 million expansion of the Creighton Mine is underway, adding six million tonnes of proved and probable ore reserves, grading 3.6 per cent nickel and 3.2 per cent copper. Production from this deeper deposit is expected to begin in 2001. In Manitoba, there is potential to deepen the Birchtree and Thompson 1-D mines. Outside Canada, our global field exploration efforts, in alliances with other mining companies, continued in 1999 on high-potential copper and zinc targets in Turkey, Indonesia and Brazil.

- We continued to make progress in expanding our specialty products business. The $14 million expansion of our Clydach Refinery in Wales for the production of battery-grade and extra-fine nickel powders and nickel foams was a milestone for the year. Inco Special Products was created in late 1999 to build upon

our leadership position in specialty nickel products. This new business unit, with a stronger, more integrated management team, encompasses market research and development in collaboration with our production centres, notably the Copper Cliff Nickel Refinery, the Clydach Refinery and our Novamet subsidiary in Wyckoff, New Jersey. Working closely with our customers, Inco Special Products is developing advanced nickel products in markets for consumer electronic products, rechargeable batteries, electromagnetic shielding, catalysts, automotive parts and other applications.

Today, we are a stronger company. We are optimistic about the long-term growth potential of our business

We are disappointed that, following extensive discussions over the latter half of 1999 and into early 2000, we could not reach an agreement with the Government of Newfoundland and Labrador on a project for the commercial development of the Voisey's Bay deposit. The Province's requirement that Inco provide a guarantee to construct a commercial processing facility, even if uneconomic, was the key factor in our inability to reach an agreement.

Our project framework and comprehensive proposal for Voisey's Bay were designed to provide significant employment and other benefits to the people of the Province of Newfoundland and Labrador and the rest of Canada while delivering an appropriate return to Inco's shareholders. Our proposal called for an initial phase consisting of a 6,000 tonnes-per-day mine/mill operation at a cost of $500 million combined with a $65 million underground exploration program. We also proposed a $125 million research and development program, which would have included construction of a pilot plant in the province. The pilot plant would have studied our environmentally superior hydrometallurgical process for treating sulphide concentrates, like the Voisey's Bay ovoid produces, which contain more nickel than laterites. Based upon the inability of the parties to reach a mutually acceptable agreement, we cannot predict at this time when negotiations with the Province might restart and when a project will proceed. In the meantime, we will continue with exploration at Voisey's Bay and research into the hydrometallurgical process.

TECHNOLOGY, RESEARCH AND DEVELOPMENT: A CORPORATE STRENGTH

Research and development is integral to our success and will continue to be a corporate strength. Research and development expenditures were $21 million in 1999, up from $18 million in 1998. This has led to better process technologies for improving nickel recoveries and environmental performance, developing new products and proceeding with "telemining" toward remote-controlled mining operations. In our existing operations, technologies are evolving to assist us in reducing smelting and refining costs while increasing throughput and recovery yields. In specialty markets, our INCOFOAM™ product line, developed from our patented nickel carbonyl technology, has been qualified for use in battery systems by the leading manufacturers of electric and hybrid vehicles.

ENVIRONMENTAL, HEALTH AND SAFETY INITIATIVES

We made progress on the environmental front in 1999. The completion of the Voisey's Bay Environmental Impact Statement was a major milestone for our Company and represents the most comprehensive environmental assessment in Canadian mining history. We are conducting a life cycle inventory project examining the environmental impact of our products and operations company-wide.

Sulphur dioxide emissions from our Canadian operations are within annual limits set by the relevant jurisdictions. By the end of 1999, our Canadian operations had also achieved a 70 per cent decrease in metal emissions, compared with 1990, exceeding the 50 per cent goal that we had initially set by participating in the voluntary Accelerated Reduction of Emissions of Toxics (ARET) program. Our 1999 action plan to reduce greenhouse gas emissions was awarded a "gold leadership" designation to be presented in March 2000 to Inco by the federal ministers of Environment and Natural Resources Canada.

Our commitment to workplace health and safety is reflected in our top-quartile performance for the Canadian mining and metals industry. We strive for zero incidents across the Company.

LOOKING AHEAD

Today, we are a stronger company. We are optimistic about the long-term growth potential of our business, particularly since new applications for nickel and the demand for stainless steel are both increasing. We are investing to capitalize on the expected growth in nickel demand while also remaining firmly committed to cost reduction as a way of life at Inco.

We are focused on our objectives for 2000:

- Bringing the PT Inco operation up to maximum annual capacity of 68,000 tonnes (150 million pounds) of nickel in matte at a unit cash cost of about $0.90 per pound.
- Successfully completing our pilot plant program at Goro and positioning ourselves to move to the next stage: proceeding to a major commercial operation capable of producing up to 54,000 tonnes (119 million pounds) of nickel per year. Goro could become one of the largest nickel mining operations in the world.
- Expanding the sale of specialty nickel products to our target of $400 million in sales by 2004.
- Continuing to be open to future discussions with the Government of Newfoundland and Labrador to arrive at a mutually agreeable and economically viable plan for the development of Voisey's Bay and to realize this important part of our corporate growth strategy.
- Maintaining our financial strength and ensuring we invest only in those projects that deliver an acceptable return are critical to our success in prudently implementing our growth strategy.

We are pleased that 1999 ended with a new labour agreement in place covering our Thompson employees, the foundation for ensuring the future competitiveness of the Manitoba Division. We thank our customers for their patience and for working with us during the work stoppage. With a labour contract expiring in the Ontario Division in spring 2000, our objective is the successful negotiation of a new agreement.

We thank our dedicated employees for their contributions to the successful restructuring of our Company. At this turning point in our history, a spirit of renewal has taken hold at Inco, we believe, bolstered by the company-wide effort to adapt our operating approaches to new competitive and market realities. We look to the future with enthusiasm and confidence in our ability to deliver on our opportunities for growth and profitability.

Michael D. Sopko

MICHAEL D. SOPKO
Chairman and Chief Executive Officer

Scott M. Hand

SCOTT M. HAND
President

Environmental, Health and Safety Performance

For Inco, 1999 was a notable year for the completion of the Voisey's Bay Environmental Impact Statement. We also made progress in our life cycle inventory project, new research and development initiatives and emission reduction and decommissioning activities in our operations in support of our commitment to the concept of sustainable development – that is, development which meets the needs of the present without compromising the ability of future generations to meet their own needs.

FACILITY AUDITS

Facility audits are the cornerstone of our environmental, health and safety management systems and programs. In 1999, we conducted five facility audits at exploration sites and facilities in Canada, the United States and Turkey.

EMISSIONS REDUCTIONS

We are committed to deploying economically and technically feasible technologies and systems at our operations toward reducing air emissions, wastewater effluents and the management of solid wastes such as slag, tailing and reject pyrrhotite. Emissions of sulphur dioxide (SO_2) from our Sudbury operations in Ontario were 221 kilotonnes in 1999, below the Ontario government's annual limit of 265 kilotonnes. SO_2 emissions from our smelter in Thompson, Manitoba were 139 kilotonnes, below the Manitoba government's annual limit of 220 kilotonnes.

We continued to reduce our emissions under the Accelerated Reduction of Emissions of Toxics (ARET) voluntary federal program. By the end of 1999, we had achieved a 70 per cent decrease in metal emissions under ARET, exceeding the goal of 50 per cent set in 1990.

At the Manitoba and Ontario divisions, we are developing the programs required to achieve an 80 per cent reduction of nickel, lead and arsenic emissions by 2007.

We are implementing changes to re-engineer our copper refining operations in Copper Cliff to eliminate metal emissions. It is expected to be completed in 2002. At PT Inco, we constructed state-of-the-art electrostatic precipitators as part of the major expansion to the facility there. The intent is to prove the technology in some existing operating areas before committing to a further upgrade of the existing dust control facilities.

LIFE CYCLE INVENTORY PROJECT

Work continued on our life cycle inventory project. This project involves a comprehensive compilation and evaluation of the resource requirements and environmental impacts associated with the production and use of our products. We expect this information to be useful to our customers, governments, regulators and the public. We will use the results to benchmark our progress in improving environmental performance. The project is expected to be completed in 2000.

DIESEL EMISSIONS EVALUATION PROGRAM

Inco has invested considerable resources to develop reliable methods of further reducing diesel particulate emissions, a potential health risk for miners. Our work in the Diesel Emissions Evaluation Program is assisting our efforts. We have identified that a new generation of filter systems could offer a comprehensive long-term solution. We have initiated a long-term study of the effectiveness and durability of these systems on diesels underground in the Ontario Division. Our goal is to identify economically feasible technologies that can be used in the diesel fleets in the Canadian divisions.

VOISEY'S BAY ENVIRONMENTAL REVIEW

We submitted a comprehensive, 2,000-page Environmental Impact Statement to a panel reporting to the Government of Canada and the Government of Newfoundland and Labrador on the Voisey's Bay development project. This panel made its recommendations in March. In August, our environmental plan, which is the most comprehensive "cradle-to-grave" plan for a Canadian mine/mill operation, was accepted by the Canadian Environmental Assessment Agency, releasing the Company from that process. We have adapted our project plan to reflect certain of the panel's recommendations. We continue to collect environmental information at Voisey's Bay, undertaking two studies with the Labrador Inuit Association to evaluate the potential impacts of mining activity on ice conditions along proposed shipping routes and on the habitats of polar bear and waterfowl.

DECOMMISSIONING PROGRAMS

We have been working systematically to implement a long-term plan to decommission facilities in an environmentally sound manner. To date, we have begun the process of returning inactive mining sites to a natural state, including 22 sites in Ontario. Inco inherited many of these Ontario sites from predecessor companies and some date to the 19th century. In Indonesia, we are actively applying revegetation strategies, replanting indigenous species of trees, on mining sites no longer in use by PT Inco.

HEALTH AND SAFETY PERFORMANCE

While Inco's safety performance is among the best in the mining and metals industry, there is always room for improvement. Inco employees continued their overall safety improvement in 1999 as measured by disabling injury frequency. We reduced our disabling injury frequency rate per 100 employees in our operating divisions to 2.5 from 3.3 in 1998.

However, this generally improved performance was overshadowed by the deaths of an Ontario Division employee, James Plummer, in an accident at Copper Cliff South Mine in April 1999, and Hamzah Baso at PT Inco in early January 2000. We are saddened by these tragic losses and remain committed to the goal of eliminating workplace injuries. Safety continues to be a key priority as we re-evaluate every aspect of how we conduct our business today.

RESEARCH DEVELOPMENTS AND INITIATIVES

We participate in a number of scientific research programs related to the environment, human health and the safety of our products. Inco is a founding member of the Nickel Producers Environmental Research Association (NiPERA). We are also actively involved with the Metals in the Environment program of The Mining Association of Canada, which coordinates its activities with the federal government and universities to fund and study research on metal-related health issues. We are also investing in research in phyto-remediation, an area of biotechnology in which certain species of vegetation are known to accumulate nickel – that is, to absorb nickel from the soil through their roots.

A number of recent studies have investigated the issue of potential health risks associated with exposure to and use of nickel. The European Union completed a risk assessment of nickel in coinage, concluding that there exists no risk of allergic contact dermatitis in the handling of nickel coins. This important finding will help counter unfounded attacks on nickel. A new North American study evaluated the health effects of soluble nickel compounds, which some previous studies had suggested was a respiratory carcinogen. The study, sponsored by the U.S. Environmental Protection Agency, Health Canada and the nickel industry, concluded that there was no evidence of respiratory cancer risks associated with exposure to nickel compounds.

With a thriving revegetation program and nursery underway, the Goro site (left) is preparing for the day when Goro could become a commercial operation. The Voisey's Bay (centre) Environmental Impact Statement represents a 1999 milestone and the demolition of the Little Stobie headframe (right) signalled the start of decommissioning of this historic mine.

Ore Reserves and Mineral Resources

On a global basis, our strategy is to increase our low-cost, high-quality and high-volume ore reserves. Inco's ore reserves and mineral resources at the end of 1999 were as follows:

	Sulphides				Laterites		
	Ontario Division	Manitoba Division	Voisey's Bay[3]	Total Sulphides	Indonesia[2]	New Caledonia[2, 3]	Total Laterites
Percentage ownership	100%	100%	100%	100%	59%	85%	
Mine type[4]	UG	UG	OC	OC/UG	OC	OC	OC
ORE RESERVES[1] (millions of tonnes)							
Proved	157	24	32	213	95	35	130
Probable	71	21	–	92	11	12	23
Total reserves	228	45	32	305	106	47	153
Average Grades (%) (principal metals only)							
Proved							
Nickel	1.26	2.39	2.83	1.62	1.82	1.46	1.72
Copper	1.16	0.16	1.68	1.13	–	–	–
Cobalt	–	–	–	–	–	0.18	–
Probable							
Nickel	1.53	2.15	–	1.67	1.80	1.95	1.88
Copper	1.37	0.13	–	1.09	–	–	–
Cobalt	–	–	–	–	–	0.12	–
Average Grades Proved and Probable							
Nickel	1.34	2.28	2.83	1.64	1.81	1.59	1.75
Copper	1.23	0.15	1.68	1.11	–	–	–
Cobalt	–	–	–	–	–	0.17	–
MINERAL RESOURCES[1] (millions of tonnes)							
Mine type[4]	UG	OC/UG	OC/UG	OC/UG	OC	OC	OC
Measured	3	–	–	3	–	29	29
Indicated	22	58	91	171	130	28	158
Inferred	29	–	14	43	171	162	333
Total resources	54	58	105	217	301	219	520
Average Grades (%)							
Measured							
Nickel	1.44	–	–	1.44	–	1.49	1.49
Copper	1.48	–	–	1.48	–	–	–
Cobalt	–	–	–	–	–	0.19	–
Indicated							
Nickel	1.55	0.79	1.25	1.13	1.80	1.80	1.80
Copper	1.82	0.06	0.59	0.57	–	–	–
Cobalt	–	–	–	–	–	0.16	–
Inferred							
Nickel	1.70	–	1.00	1.50	1.82	1.55	1.69
Copper	1.56	–	0.70	1.30	–	–	–
Cobalt	–	–	–	–	–	0.18	–
Average Grades Measured, Indicated and Inferred							
Nickel	1.62	0.79	1.21	1.20	1.81	1.57	1.71
Copper	1.66	0.06	0.60	0.72	–	–	–
Cobalt	–	–	–	–	–	0.18	–

Ore Reserves and Mineral Resources

Notes

1 Represents 100% of ore reserves and mineral resources as of December 31, 1999. Mineral resources are in addition of ore reserves.

The reserves and resources have been estimated and reported in this report in accordance with the definitions as set forth below contained in the "Australasian Code for Reporting of Mineral Resources and Ore Reserves" effective September 1999. The Company has adopted this Code as its preferred reporting basis due to its broad international acceptance.

A "Mineral Resource" is a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.

An "Inferred Mineral Resource" is that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with only a limited level of confidence. It is inferred from geological evidence and assumed from but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.

An "Indicated Mineral Resource" is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

A "Measured Mineral Resource" is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and/or grade continuity.

For Mineral Resources to be reclassified to Ore Reserves, additional drilling and technical and economic evaluations must be carried out that demonstrate that the resource can be mined economically. There can be no assurance that Mineral Resources will ultimately meet the technical and economic criteria and be reclassified as Ore Reserves.

An "Ore Reserve" is the economically mineable part of a Measured or Indicated Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and government factors. These demonstrate at the time of reporting that extraction could reasonably be justified. Ore Reserves are sub-divided in order of increasing confidence into Probable Ore Reserves and Proved Ore Reserves.

A 'Probable Ore Reserve' is the economically mineable part of an Indicated Mineral Resource, and in some circumstances Measured Mineral Resource.

A 'Proved Ore Reserve' is the economically mineable part of a Measured Mineral Resource.

2 The Company has further resources in Indonesia, New Caledonia and other locations which have not yet been fully explored.

3 Completion of feasibility studies, permitting and significant capital expenditures would be required before operations could commence at these locations.

4 Mine type: OC = Open Cut, UG = Underground. The proportion of the Mineral Resources that are OC and UG at the Manitoba Division and Voisey's Bay are as follows: at the Manitoba Division, the UG Mineral Resource is 8 million tonnes grading 1.97% nickel and 0.14% copper and the OC Mineral Resource is 50 million tonnes grading 0.58% nickel and 0.05% copper. At Voisey's Bay, the UG Mineral Resource is 95 million tonnes grading 1.24% nickel and 0.59% copper (Inferred and Indicated) and the OC Mineral Resource is 10 million tonnes grading 0.92% nickel and 0.72% copper (Indicated).

FINANCIAL REVIEW

Throughout this annual report all dollar figures are shown in U.S. dollars unless otherwise noted.

Management's Discussion and Analysis of Financial Condition and Results of Operations

HIGHLIGHTS

The Company's financial results improved in 1999 with net earnings of $17 million, compared with a loss of $76 million in 1998. Cash provided by operating activities was $128 million in 1999, compared with $174 million in 1998.

The world nickel market strengthened considerably in 1999. Cash nickel prices on the London Metal Exchange ("LME") more than doubled from the 1998 low of $3,725 per tonne ($1.69 per pound) in December 1998 to $8,450 per tonne ($3.83 per pound) by the end of December 1999. This recovery was the result of several factors, including a faster than expected recovery of certain of the Southeast Asian economies and lower than expected nickel supply, both from existing producers and from new Australian projects.

In 1999, Inco made considerable progress in each area of the three-part strategic program it implemented in 1998. The first element of this program is the reduction of the cost base of existing operations. The company-wide cost reduction initiatives, started in early 1998 with an initial target of $165 million of savings relative to 1997 and subsequently increased to $215 million, continued during 1999. The annualized cost savings target of $215 million was met by mid-year, 18 months ahead of schedule. Further savings of $35 million have been identified to be achieved by the end of 2000, bringing the total to $250 million. By year-end 1999, annualized cost savings of $235 million had been realized.

The second element of the strategy is the development of new and expanded low-cost orebodies. In the fourth quarter of 1999, the Company completed a 50 per cent expansion of the processing facilities at its 59 per cent-owned subsidiary, PT International Nickel Indonesia Tbk ("PT Inco") in Indonesia. This expansion will increase annual production capacity at PT Inco by more than 22,000 tonnes of nickel in matte, and will further reduce PT Inco's cash costs of production, which are already among the lowest in the industry. In addition, the Company commissioned a pilot plant in October 1999 at its Goro nickel-cobalt project in the French Overseas Territory of New Caledonia. The Company expects to make a decision in late 2000 on the commercial development of this property.

The third element of the Company's strategic program is growth of the Company's value-added nickel products business. In late 1999, the Company formed a new unincorporated business unit, Inco Special Products ("ISP"), with the objective of doubling ISP's 1998 annual sales of $200 million by 2004. In 1999, the Company commissioned a $14 million nickel processing facility at the Clydach Refinery in Wales as a first step toward achieving this target.

The past year also had its disappointments. In early January 2000, the Company announced that it was unable to reach an agreement with the Government of the Province of Newfoundland and Labrador on a project for the commercial development of the Voisey's Bay deposit in Labrador. The Province's requirement that Inco provide a guarantee that it would construct a commercial processing facility in the Province, even if it were not economic, was the key obstacle to reaching an agreement. As a result, the Company will not be in a position to commence construction of a mining and milling operation at Voisey's Bay this year. The Company remains open to future discussions with the Province to arrive at a mutually agreeable development plan for Voisey's Bay, and will continue its internal research and development work on hydrometallurgical processing technology and its surface exploration program at Voisey's Bay.

A three-month work stoppage at the Manitoba Division resulted in reduced production and an after-tax charge of $12 million in the fourth quarter of 1999. A settlement was reached in December 1999. The terms of this settlement represent an estimated increase of less than one per cent of total annual costs at the Manitoba Division. The Manitoba production facilities were restarted in mid-December.

Over the course of 1999, nickel prices recovered significantly, with the LME cash nickel price reaching $8,450 per tonne ($3.83 per pound) by the end of December 1999, up from a low of $3,725 per tonne ($1.69 per pound) in December 1998. In 1999, the LME cash nickel price averaged $6,015 per tonne ($2.73 per pound), up from an average of $4,633 per tonne ($2.10 per pound) in 1998. The improvement in the LME cash nickel price was a result of both a global supply deficit and a more optimistic view in the market regarding the near-term prospects for the nickel industry. By February 9, 2000, the LME cash nickel price had increased to $9,245 per tonne ($4.19 per pound).

The economic recoveries in a number of Southeast Asian economies resulted in a more positive outlook for the metals markets, a view further supported by improvements in the European economies. This situation resulted in a recovery in demand for nickel in 1999, which is estimated to have grown by more than five per cent during the year. This growth parallels a recovery in the stainless steel market, the principal end use market for nickel, with production of stainless steel estimated to have increased by over five per cent in 1999 to an estimated record level of 17.1 million tonnes. This increase follows a one per cent decline in stainless steel production in 1998. While the Southeast Asian economic crisis had a negative impact on stainless steel demand in 1998, demand recovered in 1999, both in Southeast Asia and in the rest of the western world.[1] Exports of stainless steel to China, which have been strong in recent years, offset the weakness in western world demand in 1998, and continued to grow in 1999.

Approximately two-thirds of all nickel consumed is used to manufacture stainless steel. Consumption of primary nickel in stainless steel production is estimated to have increased by almost 10 per cent in 1999. The use of primary nickel in stainless steel grew at a faster rate than overall stainless steel production due primarily to tightness in the supply of scrap stainless steel. Scrap stainless steel is an alternate source of nickel for the stainless steel industry. The proportion of nickel in stainless steel production derived from scrap declined from 46 per cent in 1998 to 44 per cent in 1999. Scrap remained in tight supply in 1999 due, in part, to low prices and weak investment activity that limited the supply of scrap. Offsetting the growth in the use of primary nickel in stainless steel was a slight decline in non-stainless steel uses of nickel, driven primarily by weakness in the nickel alloys sector as the aerospace industry, a key consumer, underwent an inventory adjustment process.

In 1999, the supply of nickel in the western world declined by 10,000 tonnes from 1998 to 949,000 tonnes. Supply is defined as nickel production in the western world plus nickel exported to the western world from Russia, China, Eastern Europe and Cuba. While some western world producers increased production in 1999, these increases were offset by several production cuts announced earlier in the year, due to weak market conditions. Although the new laterite-based projects in Australia had been expected to bring on significant additional new production in 1999, this production was not realized due to commissioning problems and other difficulties at these projects. As a result, 1999 world nickel demand is estimated to have exceeded supply by 30,000 tonnes.

Net imports from non-western world countries declined from 244,000 tonnes in 1998 to 238,000 tonnes in 1999. Most of this trade was comprised of exports of primary nickel from Russia, which are estimated to have been 208,000 tonnes in 1999, down slightly from 214,000 tonnes in 1998. Although Russian production is estimated to have increased from 220,000 tonnes in 1998 to 233,000 tonnes in 1999, rising Russian domestic demand resulted in the decline in total non-western world exports.

"In a recovering nickel market – such as we experienced in 1999 – we're poised to expand our business, particularly in Asia and emerging specialty markets, where Inco will continue to leverage its capabilities and industry leadership into new growth."

PETER GOUDIE
Executive Vice-President, Marketing

1 The world excluding the Russian Federation and other members of the former Commonwealth of Independent States, the People's Republic of China ("China"), Cuba and Eastern Europe.

In 1998, world primary nickel demand decreased slightly to an estimated 987,000 tonnes from 991,000 tonnes in 1997. The lower demand in 1998 was primarily due to lower stainless steel production and a reduction in consumer inventories. The weaker demand for stainless steel was primarily due to lower investment activity in Southeast Asia, which accounted for approximately 30 per cent of western world stainless steel demand, as a consequence of recessions in certain Southeast Asian countries following the economic crisis of 1997.

World primary nickel supply increased in 1998 to an estimated 1,013,000 tonnes from 998,000 tonnes in 1997, resulting in a supply surplus of 26,000 tonnes in 1998. Production of primary nickel in the western world increased two per cent in 1998 to approximately 714,000 tonnes, despite production disruptions, market-related production cuts and closures of processing facilities.

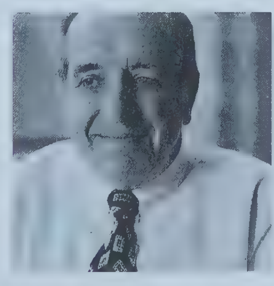
As a result of this supply/demand imbalance, the LME cash nickel price fell throughout 1998 from a price of $5,990 per tonne ($2.72 per pound) at the end of 1997 to an average of $3,964 per tonne ($1.80 per pound) in the fourth quarter of 1998.

RESULTS OF OPERATIONS

Earnings Summary

In 1999, the Company's financial results improved relative to the prior year, primarily as a result of significantly higher realized prices for nickel and the continued benefits of the Company's cost reduction initiatives. Net earnings of $17 million in 1999, compared with a loss of $76 million in 1998, principally reflected higher realized prices for nickel and platinum-group metals and lower nickel unit production costs, partially offset by lower realized prices for copper and cobalt and lower deliveries of Inco-source nickel. The 1999 results also included an after-tax expense of $12 million associated with the three-month work stoppage at the Manitoba Division and an after-tax loss of $5 million from discontinued operations resulting from a post-closing adjustment relating to the October 1998 sale of Inco Alloys International ("IAI"), the Company's former alloys business.

The loss of $76 million in 1998, compared with net earnings of $75 million in 1997, reflected significantly lower realized prices for nickel and copper, partially offset by lower nickel unit production costs and other expenses, higher deliveries of Inco-source nickel and higher prices for, and deliveries of, platinum-group metals. The 1998 results also included an after-tax charge of $32 million associated with the Company's restructuring actions and an after-tax gain of $20 million from the sale of the Company's 100 per cent interest in IAI. The 1997 results included an after-tax gain of $36 million resulting from the sale of the Company's 100 per cent interest in Doncasters plc ("Doncasters"), the Company's former engineered products business, and an after-tax expense of $20 million associated with a 26-day strike by production and maintenance employees at the Ontario Division.



"Nineteen ninety-nine was a year of financial recovery for Inco, showing solid progress on earnings. With our strong balance sheet, we have the financial depth and flexibility to prudently invest in growth while being committed to improving shareholder returns."

TONY MUNDAY
Executive Vice-President and Chief Financial Officer

Net Sales

Sales by Product

	1999		1998		1997	
	Deliveries (tonnes)	Sales ($ in millions)	Deliveries (tonnes)	Sales ($ in millions)	Deliveries (tonnes)	Sales ($ in millions)
Primary nickel,						
including intermediates[1, 3]	258,088	$ 1,658	252,925	$ 1,262	266,343	$ 1,820
Copper[2, 3]	119,754	196	133,076	245	138,451	322
Cobalt[3]	1,568	48	2,004	73	2,295	72
Precious metals						
(troy ounces in thousands)[4]	1,909	152	1,769	131	1,648	89
Other		59		55		64
Net sales to customers		$ 2,113		$ 1,766		$ 2,367

1 Includes purchased nickel of 77,038 tonnes in 1999, 67,018 tonnes in 1998 and 84,823 tonnes in 1997.
2 Includes purchased copper of 3,260 tonnes in 1999, 11,054 tonnes in 1998 and 30,845 tonnes in 1997.
3 Includes metal contained in alloys for 1998 and 1997.
4 Excludes toll-refined materials.

Realized Prices

($ per tonne/per pound)	1999	1998	1997
Primary nickel, including intermediates	$ 6,415	$ 5,291	$ 7,407
	2.91	2.40	3.36
Copper	1,631	1,852	2,359
	0.74	0.84	1.07
Cobalt	30,556	44,577	48,457
	13.86	20.22	21.98
($ per troy ounce)			
Platinum	$ 377.59	$ 373.77	$ 385.46
Palladium	359.80	290.25	177.03
Rhodium	888.33	600.24	319.26
Gold	280.69	294.89	329.98
Silver	5.29	5.54	5.00

"The turbulence in the global nickel market in the past several years, which featured extreme price volatility, reinforces the need to stay focused on being a low-cost nickel producer. We've made tough decisions during this difficult period, but we have emerged a more competitive company with a bright future in front of us."

STUART FEINER
Executive Vice-President, General Counsel and Secretary

In 1999, net sales to customers increased by $347 million, or 20 per cent, compared with 1998. This increase was primarily due to a 21 per cent increase in the Company's average realized price of nickel and a two per cent increase in nickel deliveries, partially offset by lower average realized prices for copper and cobalt. Net sales to customers decreased 25 per cent in 1998, compared with 1997, due principally to significantly lower average realized prices for, and slightly lower deliveries of, nickel and copper.

Primary nickel sales increased by $396 million, or 31 per cent, to $1,658 million in 1999 from $1,262 million in 1998 as a result of higher nickel prices and deliveries. Primary nickel sales decreased by 31 per cent in 1998 from $1,820 million in 1997 due to lower average realized prices and deliveries.

Nickel deliveries increased to 258,088 tonnes in 1999 from 252,925 tonnes in 1998. The growth of 5,163 tonnes reflected higher world demand and, in particular, increased demand from Taiwan and South Korea. The Company's nickel deliveries in 1999 represented an estimated 24 per cent of world market share, compared with 26 per cent in 1998 and 27 per cent in 1997. Nickel deliveries dropped five per cent in 1998 from 266,343 tonnes in 1997. This decrease principally reflected reduced world demand due to lower world stainless steel production, most notably in Japan and Southeast Asia.

Deliveries of Inco-source nickel decreased three per cent in 1999 to 181,050 tonnes from 185,907 tonnes in 1998. This decrease was primarily due to lower production resulting from extended annual vacation shutdowns in the Ontario and Manitoba divisions and the three-month work stoppage in the fourth quarter of 1999 at the Manitoba Division, partially offset by a drawdown of finished nickel inventory. The two-week extension of the annual shutdowns was undertaken to reduce production in 1999. Deliveries of Inco-source nickel in 1998 increased two per cent from 181,520 tonnes in 1997.

The Company's nickel price realizations tend to lag LME price movements, due primarily to the terms of the Company's contractual sales agreements with some of its customers. The LME is the principal terminal market for nickel in the world. The Company realizes a premium over the LME cash price for its nickel powders and other proprietary and high-value products. The Company's average realized price for primary nickel products, including intermediates, was $6,415 per tonne ($2.91 per pound) in 1999, compared with $5,291 per tonne ($2.40 per pound) in 1998 and $7,407 per tonne ($3.36 per pound) in 1997.

A 12 per cent decline in realized copper prices and a 10 per cent reduction in deliveries led to a 20 per cent decrease in copper sales to $196 million in 1999 from $245 million in 1998. Sales in 1998 were 24 per cent less than 1997 sales of $322 million due to a 22 per cent decrease in the average realized price and a four per cent decrease in deliveries.

Cobalt sales decreased by 34 per cent to $48 million in 1999 from $73 million in 1998. This decrease was due to a 32 per cent decline in realized cobalt prices and a 22 per cent reduction in deliveries. The decrease in cobalt deliveries in 1999, compared with 1998, was primarily due to reduced cobalt production at the Ontario Division due to the extended vacation shutdown and a one-time drawdown of in-process inventories in 1998 which increased production in that year. Sales in 1998 were comparable with 1997.

"Our global exploration programs have given Inco one of the strongest nickel reserve positions in the industry. Our exploration strategy is now focused on finding low-cost mineralization near existing mines and in regions where there is long-term potential to significantly add to our reserve position."

BOB HORN
Vice-President, Exploration

Costs and Expenses

Cost of Sales and Operating Expenses

Cost of sales and operating expenses increased by $110 million, or six per cent, to $1,845 million in 1999 from $1,735 million in 1998. This increase was primarily due to higher purchased nickel deliveries and prices and the impact of the extended vacation shutdowns at the Ontario and Manitoba divisions, partially offset by lower production costs resulting from the Company's continuing cost reduction initiatives. Cost of sales and operating expenses in 1999 also included $27 million of pre-tax expenses related to the work stoppage at the Manitoba Division.

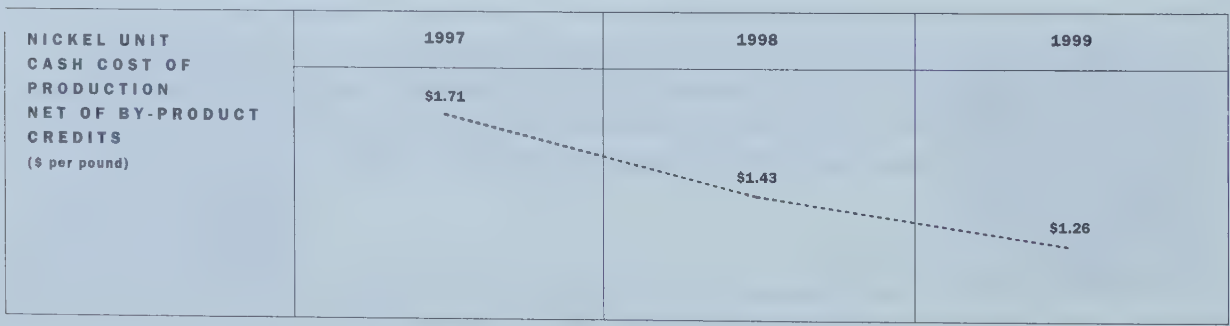
Cost of sales and operating expenses decreased by $316 million, or 15 per cent, in 1998 from $2,051 million in 1997. This decline principally reflected lower nickel unit production costs and other expenses and reduced quantities of purchased nickel, partially offset by a pre-tax charge of $64 million in 1998 associated with the Company's restructuring actions taken in connection with the cost reduction initiatives.

In November 1997, the Company announced a comprehensive operational restructuring plan under which $165 million of sustainable annual cost savings were to be achieved by the end of 2000 through a series of cost reduction initiatives. These initiatives included reductions in capital and other expenditures, reductions in employment levels and the phasing out of production from higher-cost mines to focus on profitable production. The targeted savings were increased from $165 million to $215 million in February 1998. Approximately $175 million, on an annualized basis, of these savings were realized by the end of 1998. By the end of 1999, annualized savings of $235 million had been achieved, and the Company now expects to realize cumulative sustainable annual cost savings of at least $250 million by the end of 2000.

Also in 1998, the Company completed a comprehensive review of mining operations at the Ontario and Manitoba divisions. Based on this review, a program encompassing new mine plan development was implemented for all mines to maximize cash flow, ensure efficient mining operations and reduce mine costs. During 1998, the Company closed two high-cost Ontario Division mines, Shebandowan and Whistle, and increased production at low-cost mines as part of this program. In 1999, Little Stobie and Levack/McCreedy West mines were closed, and Frood, Crean Hill and Coleman mines at the Ontario Division will close in 2001. Garson Mine continues to meet the performance targets required for it to remain in operation, development of the low-grade portion of Stobie Mine remains under review, and development of the Creighton Deep orebody remains on budget and on schedule. In the Manitoba Division, a Birchtree Mine co-design team exceeded production targets and, through various initiatives, achieved significant cost performance goals.

Nickel Unit Production Costs

Nickel unit production costs represent the total of all cash costs (such as wages and benefits, energy and supplies) and non-cash costs (such as depreciation and depletion) incurred by the Company to produce a unit of nickel. These costs decreased by four per cent in 1999, compared with 1998. This reduction follows an 11 per cent decrease in nickel unit production costs in 1998 relative to 1997. The lower 1999 costs were primarily the result of reductions in certain employment and other costs associated with cost reduction initiatives and improved ore grades. The 1998 decline resulted from reduced employment and other costs, improvements in ore grades and recoveries, higher production levels and improved productivity.



Unit production costs for nickel are also affected by productivity levels. Productivity in 1999, as measured in pounds of nickel and copper produced per shift, increased by nine per cent, compared with 1998. This improvement reflected further employment reductions at the Company's Canadian operations combined with a 29 per cent increase in production at PT Inco. In 1998, productivity increased by 16 per cent, compared with 1997, reflecting improvements at all of the Company's operations, due to higher production with fewer employees and improved operating efficiencies.

The cash cost of nickel production, net of by-product credits, decreased 12 per cent in 1999, compared with 1998, to $2,778 per tonne ($1.26 per pound). This decline resulted from the continuing cost reduction initiatives and productivity improvements. The cash cost of nickel production decreased 16 per cent in 1998 to $3,153 per tonne ($1.43 per pound) from $3,770 per tonne ($1.71 per pound) in 1997.

Energy Cost Advantages

Energy costs are a significant component of production costs since nickel production is energy intensive, especially in respect of lateritic ores. The Company enjoys relatively low energy costs because of substantial production from its Canadian sulphide ores, which consume only about one-fifth of the energy required to process lateritic ores. In addition, low-cost electricity is available from the Company's hydroelectric facilities in Ontario and at PT Inco's lateritic mining operations in Indonesia. The availability of captive hydroelectric power decreased cash energy costs of PT Inco in 1999 by about 53 per cent, compared with about 52 per cent in 1998 and about 46 per cent in 1997, relative to the energy costs that would have been incurred had PT Inco been totally energy dependent on oil.

Union Negotiations

A new three-year contract between the Company and unionized production and maintenance employees at the Manitoba Division was negotiated in December 1999 following a three-month work stoppage that began in mid-September. The new contract, which remains in effect until September 15, 2002, provides wage and pension improvements and opportunities for employees to share in the Division's improvements in operating efficiency. The Company will benefit from productivity improvements through increased operating flexibility in areas such as shift scheduling in the surface plants. The terms of this settlement represent an estimated increase of less than one per cent of total costs at the Manitoba Division on an annual basis. The Division recommenced production in mid-December.

Pre-tax expenses attributable to the work stoppage of $27 million were charged to cost of sales and operating expenses in 1999. The expense represents those ongoing costs, such as salaries and certain employment benefits, depreciation, property taxes, utilities and maintenance, incurred during the shutdown period which would normally be treated as production costs and charged to inventory but, in the absence of production, have been expensed.

The Company's contract with unionized production and maintenance employees at the Ontario Division expires on May 31, 2000. The contract with unionized employees at PT Inco is also due for renegotiation in December 2000.

"We've been making substantial changes at our facilities, evolving our business culture and motivating people to improve operational performance. The result has been significant gains in mill and smelter recoveries, lower maintenance costs and a workforce committed to embracing continuous improvement as a way of life."

PETER JONES
Executive Vice-President, Operations

Nickel Production

The three-month work stoppage at the Manitoba Division and the extended vacation shutdowns at the Ontario and Manitoba divisions, partially offset by higher production of nickel in matte at PT Inco, led to reduced nickel production in 1999 of 177,253 tonnes, down seven per cent from 191,603 tonnes in 1998. In 1998, the Company's nickel production increased by 12,886 tonnes, or seven per cent, from 178,717 tonnes in 1997, reflecting higher production from all operations. The Company's finished nickel inventories were 24,333 tonnes at December 31, 1999, compared with 27,347 tonnes at December 31, 1998 and 24,579 tonnes at December 31, 1997. The decline at the end of 1999, compared with 1998, reflected an inventory drawdown to meet customer requirements during the work stoppage at the Manitoba Division.

Production of nickel in matte at PT Inco increased by 29 per cent to 45,400 tonnes in 1999 from 35,300 tonnes in 1998. Nickel in matte, an intermediate product, is sold by PT Inco primarily into the Japanese market. The higher production in 1999, compared with 1998, was primarily the result of increased availability of hydroelectric power. Approximately 85 per cent of PT Inco's power requirements are supplied by its 165-megawatt hydroelectric generating facility. This figure is expected to increase to 93 per cent in 2000 as a result of the additional 93 megawatts of power production from a new hydroelectric facility, which was completed in 1999 and which will commence operation in 2000. Severe drought conditions in Indonesia in 1997 and early 1998 caused by the El Niño weather phenomenon resulted in reduced water levels that severely limited the amount of hydroelectric power available in those years. Rainfall was higher in 1999 than in 1998, but still below average, which resulted in 1999 hydroelectric power production higher than 1998 but still less than capacity. Production of PT Inco nickel in matte increased by 10 per cent in 1998 from 32,000 tonnes in 1997, due primarily to the increased availability of hydroelectric power in 1998.

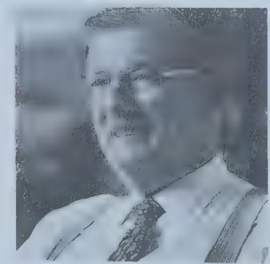
Copper Production

The Company's copper production decreased 4,847 tonnes, or four per cent, to 116,260 tonnes in 1999 from 121,107 tonnes in 1998, primarily due to the extended annual vacation shutdown at the Ontario Division. In 1998, the Company's copper production increased 17,969 tonnes, or 17 per cent, from 103,138 tonnes in 1997 as a result of higher production from the Ontario Division and improved ore grades.

Other Expenses

Selling, general and administrative expenses of the Company were $99 million in 1999, compared with $96 million in 1998 and $109 million in 1997. The increase in 1999, relative to 1998, was due to higher accruals for share appreciation rights expenses under the Company's stock compensation plans, which are described in Notes 1 and 12 to the Consolidated Financial Statements. Excluding the impact of these accruals, 1999 selling, general and administrative expenses were $5 million, or five per cent, lower than 1998 due primarily to the continuing cost reduction initiatives. The decrease of $13 million in 1998, compared with 1997, was primarily due to the Company's cost reduction initiatives.

Research and development expense was $21 million in 1999, up $3 million from 1998. The increase was primarily due to increased activities associated with the development of additional proprietary value-added nickel products, metallurgical process improvements, development work for the Voisey's Bay and Goro hydrometallurgical processes and mines research towards the development of remote controlled mining capabilities. The 1998 expense represented a 36 per cent decrease from the 1997 expense of $28 million, primarily due to the Company's cost reduction initiatives.



"Inco's technological edge is a major competitive advantage. Our research and development programs provide the means to develop proprietary operating processes that enhance our cost position and enable us to enter new markets with innovative specialty products that sell at higher premiums."

GORD BACON
Vice-President, Technology and Engineering

Exploration expense was $23 million in 1999 compared with $29 million in 1998 and $38 million in 1997. These amounts exclude capitalized exploration costs, primarily in respect of the Voisey's Bay project, of $7 million in 1999, $7 million in 1998 and $21 million in 1997. The decrease in exploration expense in 1999, relative to 1998, was primarily due to the Company's cost reduction initiatives and reduced global field exploration. Exploration efforts continue to focus on finding additional high-grade nickel deposits in Canada near existing mine workings that can be easily accessed at low capital cost to expand the Company's ore reserves and provide additional feed for existing processing facilities. The Company continues to evaluate non-nickel opportunities with the potential to enhance overall mining operations.

Interest Expense

Interest expense was $73 million in 1999, compared with $86 million in 1998 and $81 million in 1997. These amounts exclude capitalized interest of $37 million in 1999, $40 million in 1998 and $29 million in 1997 on debt incurred to finance the acquisition and development of the Voisey's Bay and Goro projects and the expansion at PT Inco. The decrease in interest expense in 1999, relative to 1998, was primarily due to lower average balances of debt not associated with the Voisey's Bay, Goro and PT Inco projects. At December 31, 1999, approximately 48 per cent of the Company's total debt bore interest rates that were subject to periodic adjustments based on market interest rates. The Company's long-term debt and average effective interest rates at December 31, 1999 are summarized in Note 6 to the Consolidated Financial Statements.

Income and Mining Taxes

In 1999, the effective income and mining tax rate was 40.4 per cent, compared with a tax rate of relief of 47.5 per cent in 1998 on a pre-tax loss and a rate of 50.0 per cent in 1997 on pre-tax earnings. The 1999 rate of provision, compared with the 1998 rate of relief, principally reflected higher resource and depletion allowances attributable to higher resource income in Canada and increased tax rate differences, partially offset by higher mining taxes and non-deductible currency translation adjustments. The 1998 rate of relief was lower than the 1997 rate of tax on earnings primarily because of a reduction in the resource allowance and mining taxes as a result of lower resource income in Canada and the effect of non-deductible currency translation adjustments. In addition, in 1999 and 1997, the Company's effective tax rate was favourably influenced, compared with the combined Canadian federal and provincial statutory income tax rate, by certain earnings derived outside of Canada. These earnings, primarily in Indonesia, the United Kingdom and the United States, are taxed at lower rates than would prevail in Canada. In 1998, due to the pre-tax loss, the impact of these lower rates was to increase the effective rate of relief.

Minority Interest

Minority interest primarily represents the respective minority shareholders' interests in PT Inco, Inco TNC Limited ("ITL"), and Jinco Nonferrous Metals Co., Ltd. The increase in minority interest in 1999, relative to 1998, is primarily due to the higher earnings of PT Inco, partially offset by an increase in the Company's ownership percentage of ITL from 51 per cent to 67 per cent. The decrease in minority interest in 1998, relative to 1997, resulted from lower earnings at PT Inco.

"Strong partnerships with government and other stakeholders are essential to our business. We take pride in being a good corporate citizen and that is reflected in the many contributions we make to the economic progress and social well-being in the communities where we operate."

ALAN STUBBS
Vice-President, Public and Government Affairs

Discontinued Operations

In October 1998, the Company completed the sale of its 100 per cent interest in IAI, its former alloys business segment, for gross proceeds of $365 million. An after-tax gain of $20 million from this sale was recorded in 1998. The sale price was subject to a post-closing adjustment based on certain changes in IAI's net worth up to closing. The process for determining this adjustment was completed in late October 1999, resulting in a $5 million after-tax effective reduction in the sale price for IAI. This amount was recorded as a loss from discontinued operations in the third quarter of 1999.

In February 1997, the Company completed the sale of its 100 per cent interest in Doncasters, its engineered products business segment. This segment was sold through an underwritten initial public offering for gross proceeds of $132 million. An after-tax gain of $36 million from this sale was recorded in 1997.

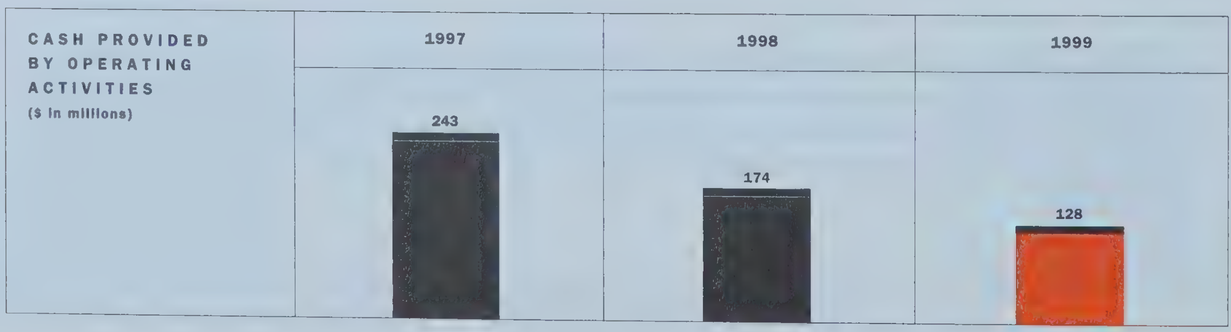
Net sales from discontinued operations were $454 million in 1998, compared with $666 million in 1997. Operating earnings from discontinued operations were $25 million in 1998 and $40 million in 1997.

The assets and liabilities of discontinued operations included in the Consolidated Balance Sheet comprise those of IAI at December 31, 1997. The operating results and cash flows of IAI and Doncasters up to their respective disposition dates, including the gain and net proceeds from the sale of IAI in 1998 and Doncasters in 1997, have been reported separately in the Consolidated Statement of Earnings as earnings from discontinued operations and in the Consolidated Statement of Cash Flows as discontinued operations. For further information, see Note 3 to the Consolidated Financial Statements.

CASH FLOWS, LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash provided by operating activities decreased to $128 million in 1999, compared with $174 million in 1998 and $243 million in 1997. The decrease of $46 million in 1999, compared with 1998, was primarily due to an increase in working capital, partially offset by higher operating results. The working capital increase resulted primarily from higher accounts receivable due to higher sales and lower accounts payable and accrued liabilities due to reduced spending activity. The decrease of $69 million in 1998, compared with 1997, was primarily due to lower operating results, partially offset by a decrease in working capital principally attributable to decreases in accounts receivable and inventories. Tax payments were $42 million in 1999, $49 million in 1998 and $133 million in 1997.



Investing Activities

Cash used for investing activities decreased to $238 million in 1999, compared with $417 million in 1998 and $522 million in 1997. Compared with 1998, the lower cash used for investing activities in 1999 was primarily due to reduced capital expenditures. Capital expenditures were $260 million in 1999, compared with $437 million in 1998 and $535 million in 1997. The lower expenditures in 1999, compared with 1998, principally reflected lower spending in Indonesia associated with the completion of the PT Inco expansion project and reduced capital spending as a result of the Company's continuing cost reduction initiatives. The lower capital expenditures in 1998, compared with 1997, principally reflected lower spending in Canada, partially offset by increased spending in Indonesia in respect of the PT Inco expansion project, and in New Caledonia in respect of the construction of the Goro project's pilot plant.

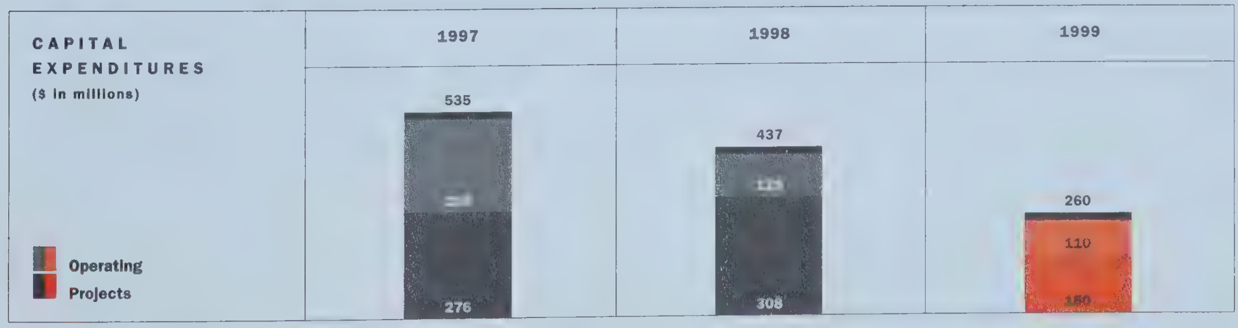
In 1999, capital expenditures included $113 million, including capitalized interest, in respect of the PT Inco expansion, compared with $229 million in 1998 and $201 million in 1997. Capital expenditures in respect of the Voisey's Bay project, including capitalized interest, totalled $16 million, $54 million and $75 million in 1999, 1998 and 1997, respectively. Capital expenditures in respect of the construction of the Goro project's pilot plant totalled $21 million in 1999 and $25 million in 1998, including capitalized interest. The balance of capital expenditures in each of the three years was directed primarily to the development, maintenance and improvement of new and existing mining operations in Canada and productivity improvements.

Financing Activities

Net cash inflow from financing activities was $66 million in 1999, compared with a net cash outflow of $63 million in 1998 and a net cash inflow of $147 million in 1997.

In May 1999, the Company sold 15 million Common Shares in an underwritten public offering on a "bought deal" basis. The shares were sold at prices of $19.00 per share in the United States and in certain other jurisdictions, and at Cdn. $27.50 per share in Canada. The net cash proceeds of this sale of $273 million were used to repay existing floating rate bank indebtedness which, in part, had been incurred to finance certain capital expenditures relating to the Company's Goro project, the expansion of facilities at PT Inco and new mine development at the Ontario Division.

On February 10, 1999, the Board of Directors eliminated the payment of dividends on the Company's Common Shares. As a result of this action, no minimum dividend was paid on the Class VBN Shares in accordance with their terms. Regular quarterly cash dividends totalling $16 million ($0.10 per share) were paid to common shareholders in 1998, compared with $67 million ($0.40 per share) in 1997. In February 1998, the Company's Board of Directors reduced the regular quarterly cash dividend on Common Shares from $0.10 per share to $0.025 per share and the quarterly dividend for the Class VBN Shares was consequently adjusted to $0.02 per share. Dividends paid to Class VBN shareholders were $2 million in 1998, compared with $8 million in 1997.



Preferred dividends totalling $26 million were paid in each of the years 1999, 1998 and 1997 on the Company's 5.5% Convertible Redeemable Preferred Shares Series E. Dividends paid to minority interest shareholders were $10 million in 1999, compared with $1 million in 1998 and $11 million in 1997. The increase in dividends paid to minority interest shareholders in 1999, compared with 1998, was primarily due to a special dividend paid to shareholders of the Tokyo Nickel Company, Ltd. (TNC) in March 1999 in connection with the increase of the Company's interest in ITL (formerly TNC) from 51 per cent to 67 per cent.

To provide liquidity for its operations, the Company maintains committed bank credit facilities. The facilities are provided by a syndicate of banks under separate agreements, the terms of which are substantially the same. The total available under these facilities was $840 million as of December 31, 1999, an increase of $25 million from the balance available at December 31, 1998. This increase was due to the addition of two banks to the syndicate in 1999. The facilities have a 364-day revolving period expiring on June 7, 2000. The revolving period of each of the facilities may be extended for one or more 364-day periods upon the mutual agreement of the Company and the respective bank. Any amounts advanced and outstanding at the expiration of the revolving period, if the revolving period has not been extended, may, at the Company's option, be converted into five-year term loans. At December 31, 1999, $109 million was outstanding under the Company's bank credit facilities. This amount was composed of $64 million drawn under the existing $840 million revolving loan facilities and $45 million drawn under similar facilities which were converted in 1998 into five-year term loans. Each facility provides that, so long as advances are outstanding, the Company will be required to maintain a Consolidated Debt to Net Worth Ratio, as defined therein, not to exceed 55:45. At December 31, 1999, the Company's Consolidated Debt to Net Worth Ratio, as defined, was 20:80.

The Company's total debt at December 31, 1999 was $1,344 million, compared with $1,523 million at December 31, 1998 and $1,549 million at December 31, 1997. The decrease in debt in 1999, compared with 1998, primarily resulted from the application of the net proceeds from the sale of Common Shares in May 1999. The decrease in debt in 1998, compared with 1997, was primarily due to the application of the net cash proceeds from the sale of IAI. This decrease was largely offset by the drawdown by PT Inco of $131 million relating to its expansion project and the drawdown by the Company under its available credit facilities to finance certain capital and operating expenditures. The Company's total debt:equity ratio was 23:77 at the end of 1999, compared with 26:74 at the end of 1998 and 1997.

Cash provided by discontinued operations was $332 million in 1998, compared with $110 million in 1997. Net proceeds of $310 million from the sale of IAI in 1998 and $111 million from the sale of Doncasters in 1997 were used to reduce debt.

The Company believes that its cash provided by operations, together with cash available from its unused lines of credit and its access to international capital markets, will be more than sufficient to meet its cash requirements in 2000. These requirements would include the Company's ongoing cash needs as well as the cash required to finance the Company's other planned capital expenditures.

Market Risk

Market risk is the risk of potential loss arising from adverse changes in market rates and prices. Given the Company's business and operations, its exposure to these adverse changes relates principally to nickel prices and, to a lesser extent, other metals and commodity prices (metals and commodities risk), foreign currency exchange rates (foreign exchange risk), and interest rates (interest rate risk). In the case of metals and commodities risk, the Company sells its products at prices based on world market prices and purchases fuel oil and other supplies at market prices for those commodities. The Company is subject to foreign exchange risk because prices for the Company's primary nickel and other metals produced are based largely on, and sold in, U.S. dollars, while the Company incurs a substantial portion of its costs in currencies other than the U.S. dollar, in particular the Canadian dollar. The Company is exposed to additional foreign exchange risk and to interest rate risk because it has variable rate U.S. dollar debt.

The Company has engaged in transactions to manage certain of these market risks to which it is exposed to a significant degree. However, the Company generally does not use derivative instruments to hedge exposure of its nickel production to fluctuating market prices. The Company has established policies and procedures governing the use of derivative instruments to address certain market risks. These policies and procedures are intended to reduce certain of the uncertainties associated with the market risks specific to the Company's business and operations. The Company does not use these instruments for trading or speculative purposes. The Company only uses derivative instruments based on an economic analysis of the underlying exposures, anticipating that adverse effects on future earnings and cash flow due to fluctuations in metals and commodities prices, foreign currency exchange rates and interest rates will be offset by the proceeds from, and changes in, the fair value of the derivative instruments. The Company does not, however, hedge its exposure to any market risk in a manner that completely eliminates the effects of changing market conditions on its earnings or cash flow.

Metals and Commodities Risk

Prices for metals and other commodities produced and consumed by the Company are effectively determined through trading on major commodity exchanges, notably the LME and the New York Mercantile Exchange. The prices offered on these exchanges generally reflect the global balance of supply and demand for a particular commodity but are also influenced by such factors as investment funds flow, speculative activity and by currency exchange rates.

The price of nickel, the Company's principal product, was the major factor influencing operating earnings and cash flows for the years ended December 31, 1999, 1998 and 1997. Inco's selling price for primary nickel is generally based on the LME cash price per tonne of nickel, which averaged $6,015 per tonne ($2.73 per pound) in 1999, compared with $4,633 per tonne ($2.10 per pound) in 1998 and $6,930 per tonne ($3.14 per pound) in 1997. However, certain of the Company's products are customarily sold at a premium over the LME cash price, particularly Inco specialty products such as nickel powders and foams. In general, the Company does not use derivative instruments to hedge its exposure to fluctuating nickel prices. The Company does, however, enter into LME forward sales and/or purchase contracts to hedge its exposure to changes in prices of purchased nickel and of Inco-source nickel to be delivered to customers three or more months in the future. At December 31, 1999, the Company had outstanding LME forward sales contracts to sell 12,444 tonnes of nickel during 2000 at prices averaging from $7,474 to $8,620 per tonne ($3.39 to $3.91 per pound).

The Company uses oil swap contracts to hedge the effect of energy price changes in respect of a portion of its energy requirements in Indonesia. Under these contracts, the Company receives or makes payments based on the difference between a fixed and floating price for fuel oil. At December 31, 1999, the Company had swap contracts with a financial institution to exchange payments on 38,150 tonnes of fuel oil in 2000, representing about 10 per cent of that year's annual requirements. Under the swap contracts, the Company pays fixed prices averaging $81.82 per tonne ($12.51 per barrel) in 2000 and receives a floating price.

Foreign Exchange Risk

By virtue of its international operations, the Company conducts business in a number of foreign currencies other than the U.S. dollar. The Company's primary exchange risk is to changes in the value of the Canadian dollar, the currency in which a substantial portion of the Company's costs are incurred, relative to the U.S. dollar. The Company reduces the impact of this risk by entering into forward currency contracts and foreign currency options. The contracts typically do not extend beyond one year. At December 31, 1999, the Company had outstanding currency call option contracts, giving it the right to purchase Cdn. $15 million at an average rate to U.S. dollars of $0.685 in each of the first three quarters of 2000, and outstanding currency put option contracts, giving the buyer the right to sell to the Company Cdn. $15 million at an average rate to U.S. dollars of $0.667 in each of the first three quarters of 2000. The purpose of the Company's Canadian dollar hedging activities is to reduce the risk that the eventual U.S. dollar cash flows relating to a portion of its future Canadian production costs will be adversely affected by an appreciation of the Canadian dollar. The Company had outstanding forward currency contracts to purchase Cdn. $111 million at average rates to U.S. dollars ranging from $0.67 to $0.68 in January 2000 to hedge the repayment of certain Canadian dollar debt. The Company is, to a substantially lesser extent, subject to fluctuations in the value of the Indonesian Rupiah relative to the U.S. dollar from its operations in Indonesia. Because of the limited nature of this exposure, the Company does not customarily hedge the value of the Rupiah against the U.S. dollar and no such financial instruments were in effect at December 31, 1999.

Interest Rate Risk

At December 31, 1999, approximately 48 per cent of the Company's total debt, or $642 million, was subject to variable interest rates. The impact of a 10 per cent change in interest rates, or 62 basis points, would change interest expense by $4 million over a full year. The Company did not enter into any financial instruments to hedge interest rate movements in 1999, and no such instruments were in place at December 31, 1999.

Sensitivities

The Company's results of operations are sensitive to changes in prices for nickel and other metals, the Canadian/U.S. dollar exchange rate, and interest rates. The operating results are also affected by changes in the Indonesian Rupiah/U.S. dollar exchange rate, but to a lesser extent as PT Inco's revenues and many of its expenses are denominated in U.S. dollars. The following table indicates the approximate full year impact of the Company's principal market risk exposures on operating earnings, based on planned 2000 deliveries of Inco-source metals and after taking into consideration outstanding hedging transactions:

Sensitivities	Change in realization	Impact on operating earnings
Nickel	$220 per tonne	$47 million
Copper	220 per tonne	28 million
Cobalt	2,205 per tonne	4 million
U.S. $1.00 per Cdn. dollar	1 cent	10 million
U.S. $1.00 per Rupiah (per thousand)	1 cent	2 million

The changes in realized prices noted above reflect approximately three per cent of the value of nickel, 12 per cent of the value of copper and eight per cent of the value of cobalt at the end of 1999. In respect of foreign currency dollar sensitivities, the changes reflect approximately one per cent of the value of the U.S. dollar relative to the Canadian dollar and seven per cent of the value of the U.S. dollar relative to the Rupiah at the end of 1999.

Environmental Risk

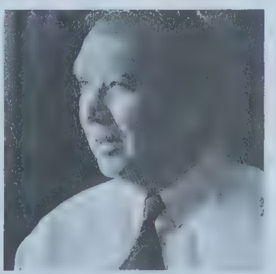
The operations of the Company have been, and may in the future be, affected from time to time in varying degrees by changes in environmental regulations, including those for future removal and site restoration costs. The Company's policy is to meet or surpass environmental standards set by relevant legislation, through the application of technically proven and economically feasible measures. Operating and capital expenditures during 1997-1999 relating to the Company's ongoing environmental and reclamation programs and removal and site restoration costs and related details are summarized in Note 8 to the Consolidated Financial Statements.

Although the ultimate amount to be incurred is uncertain, the total liability for future removal and site restoration costs in respect of the Company's worldwide operations, to be incurred primarily after cessation of operations, is estimated to be approximately $300 million at December 31, 1999. In recognition of this future liability, the Company, starting in 1995, annually provides $10 million for future removal and site restoration costs. This amount is based upon the estimated remaining lives of the Company's applicable ore reserves and facilities and is in addition to ongoing operating and capital expenditures. The estimate of the total liability for future removal and site restoration costs has been developed from independent environmental studies, which include an evaluation of, among other factors, currently available information with respect to closure plans and closure alternatives, the anticipated method and extent of site restoration using current costs and existing technology, and compliance required by presently enacted laws, regulations and existing industry standards. The total liability for future removal and site restoration costs represents estimated expenditures associated with closure, progressive rehabilitation and post-closure care and maintenance. Potential recoveries of funds from the future sale of assets upon the ultimate closure of operations have not been reflected in the estimate of the total liability or related annual provision.

Future changes, if any, to the estimated total liability, as a result of amended requirements, laws, regulations and operating assumptions may be significant and would be recognized prospectively as a change in estimate, when applicable. Environmental laws and regulations are continually evolving in all regions in which the Company operates. The Company is not able to determine the impact, if any, of environmental laws and regulations that may be enacted in the future on its financial position due to the uncertainty surrounding the ultimate form that such laws and regulations may take.

Year 2000 Risk

In preparation for potential "Year 2000" computer problems, the Company initiated a compliance program to develop testing protocols and criteria for all critical business systems, industrial equipment and other systems. The testing of all critical business systems and corrections or changes to such systems, and testing of all industrial equipment and other systems was completed in September 1999 at a total cost of $11 million in 1999, $6 million in 1998 and $2 million in 1997. As a result of these preparations, the Company did not experience any significant problems with its computer systems in connection with the Year 2000 issue. Work will continue through the first quarter of 2000 to complete final testing and any necessary corrections to non-critical systems and to monitor and address any issues related to Year 2000 compliance which may have arisen at the Company's suppliers and customers.



"Our objective is to continuously improve our environmental performance and to fully orient Inco operations to the principles of sustainable development."

CHARLES FERGUSON
Vice-President, Environment, Health and Safety

Other Risks

The Company reviews and evaluates its capital assets for impairment when events or changes in economic and other circumstances indicate that the carrying value of such assets may not be fully recoverable. The net recoverable value of a capital asset is calculated by estimating undiscounted future net cash flows from the asset together with the asset's residual value. Future net cash flows are developed using assumptions that reflect the Company's planned course of action for a capital asset given the Company's best estimate of the most probable set of economic conditions.

Evaluation of the future cash flows from the Voisey's Bay project entails a number of assumptions regarding project scope, timing and receipt of regulatory approvals, estimates of future metals prices, estimates of the ultimate size of the deposit, ore grades and recoverability, timing of commercial production, production volumes, operating and capital costs, and foreign currency exchange rates. Inherent in these assumptions are significant risks and uncertainties. In the Company's view, based on assumptions which it believes to be reasonable, a reduction in the carrying value of the Voisey's Bay project is not required at this time. It is possible that changes in future economic conditions or the project framework and the resulting impact on some or all of these assumptions may require such a reduction.

The uncertain political situation in Indonesia, primarily as a result of the economic problems facing that country, could adversely affect PT Inco's ability to operate and, accordingly, the Company's results of operations, financial condition and prospects.

ACCOUNTING CHANGES IN 2000

The Company will adopt new accounting standards of the Canadian Institute of Chartered Accountants on income taxes and employee future benefits for Canadian reporting purposes commencing in the first quarter of 2000. These standards substantially conform to generally accepted accounting principles in the United States.

The Company adopted the requirement for accrual accounting in respect of post-retirement benefits other than pensions under the new accounting standard for employee future benefits in 1995 and the other requirements of the new accounting standard will be adopted prospectively.

The new accounting standard in respect of income taxes, which must be adopted retroactively, will change the accounting for acquisitions in prior years, resulting in an increase of approximately $2.2 billion in the carrying value of the Voisey's Bay project and a corresponding increase in related deferred income tax liabilities. The net carrying value used for asset impairment evaluations remains unchanged. The cumulative effect of adopting this new accounting standard at January 1, 2000 for all other items will be a charge to retained earnings of approximately $100 million and a corresponding increase in deferred income tax liabilities. Future results will reflect the amortization of both the increase in the carrying value of the Voisey's Bay project and related deferred income tax liabilities once operations commence and will also reflect the periodic impact of changes in tax rates and foreign currency exchange rates on the deferred income tax liabilities. The adoption of this new accounting standard will substantially conform the Company's reporting for Canadian accounting purposes to that of the United States, which the Company adopted for U.S. reporting in 1993. Reference is made to Notes 2, 7 and 18 to the Consolidated Financial Statements.

The financial information presented in Management's Discussion and Analysis of Financial Condition and Results of Operations is consistent with the Company's Consolidated Financial Statements which are prepared in accordance with accounting principles generally accepted in Canada which, in the Company's case, generally conform with those established in the United States, except as explained in Note 18 to the Consolidated Financial Statements.

Reference is made to page 73 of this Report for certain information on governmental and other policies and factors affecting the Company's operations and investments by non-Canadians in the Company's securities.

OUTLOOK

The Company will continue to pursue its three-part strategic program of cost reductions in its existing operations, development of new low-cost nickel production capacity and growth in its specialty nickel products business. The Company's goal is to become the world's lowest-cost and most profitable nickel producer.

Production, revenues and profits are expected to be enhanced in future years by the expanded facilities at PT Inco. The expansion has increased PT Inco's production capacity by 50 per cent to an annual rate of 68,000 tonnes of nickel in matte. The expansion is expected to reduce PT Inco's already low cash unit production cost

by more than 10 per cent. The project involved improvements to the three existing smelting lines and the construction of a fourth electric furnace smelting line and additional hydroelectric generating capacity at a cost of $633 million, excluding financing and commissioning costs. As the expanded facilities are now fully commissioned and in the process of being brought up to full production, a significant portion of that increased production is expected to be realized in 2000. With the commencement of commercial production from the expanded facilities, interest costs, previously capitalized during the construction period, will now be expensed and depreciation expense in respect of the new facilities will commence. Interest costs of $27 million were capitalized in respect of the PT Inco expansion project in 1999.

The Company's cost reduction initiatives are expected to improve profitability and cash flow in 2000 and future years. By the end of 1999, the Company had realized sustainable annualized savings of $235 million, with $15 million of additional savings identified and targeted to be realized by the end of 2000. These savings, which the Company is committed to sustaining, have resulted in lower costs and improved operating margins.

Looking beyond 2000, the Company has several major development projects under review, which are currently expected to have a significant effect on operating results in future years.

In the Ontario Division, a new area of mineralization was discovered in 1999 near the existing Totten Mine. Nine drill holes intersected areas of high metal grades, ranging up to 3.2 per cent nickel, up to 3.6 per cent copper and up to 8.9 grams per tonne of platinum-group metals and gold, over mineable widths of up to 18 metres. An estimate of the resource grade and tonnage is expected to be completed in 2000. In addition, development continued on the Creighton Deep project, with $12 million of capital expenditures in 1999. Initial production from the first phase of this project is expected in 2001. When Creighton Deep is fully operational, annual production is expected to be 10,900 tonnes of nickel, 9,500 tonnes of copper and 28,000 troy ounces of platinum-group metals. Other initiatives currently underway at the Ontario Division include a review of milling operations, with a target of two per cent improvement in nickel recoveries.

In the Manitoba Division, work continues on the review of the Birchtree Mine lower orebody, with a view to bringing that project into commercial production.

The Company owns 85 per cent of the Goro project in the French Overseas Territory of New Caledonia. This project has an extensive laterite resource base, including an initial mining zone with proved and probable ore reserves of 47 million tonnes which has been outlined as a 20-year source of feed for a potential commercial plant. This ore reserve base can be mined using low-cost open pit methods, which, when combined with the Company's proprietary pressure-acid leaching and solvent extraction technology, gives the project the potential to have one of the lowest cash costs of nickel production in the world. In 1999, the Company completed the construction of an integrated pilot plant in New Caledonia capable of processing 12 tonnes of ore per day and will continue with the development of the technology required for commercialization. The Company expects to make a decision on a commercial operation in late 2000 with an annual capacity of 54,000 tonnes of low-cost nickel and 5,400 tonnes of cobalt, to be constructed in either one or two phases.

Over the last six months of 1999, the Company had been in discussion with the Government of Newfoundland and Labrador on a project framework for development of the Voisey's Bay nickel-copper-cobalt deposit in that Province. In these discussions, the Company outlined to the Province a comprehensive project framework, including an initial phase consisting of a 6,000 tonnes-per-day mine/mill operation at Voisey's Bay at a cost of $500 million, a $65 million underground exploration program and a $125 million research and development program. These negotiations did not result in an agreement, however, as the Province insisted that the Company provide an unconditional guarantee that processing facilities would be built in the Province, even if they were not economic. The Company's position in this respect remains that any such commitment must be subject to economic and technical feasibility. As a result, commencement of development of the project in the summer of 2000 as originally planned will no longer be possible. The Company continues to be open to future discussions with the Province to arrive at a mutually acceptable development plan for Voisey's Bay, and will continue its internal research and development work on the hydrometallurgical processing technology applicable to Voisey's Bay ores. The Company will also continue its surface exploration program to further define the Voisey's Bay orebody, as well as to explore new targets in the claim blocks held in Labrador.

The Company's 2000 nickel production is currently expected to be approximately 211,000 tonnes. Beyond 2000, as higher-cost mines are phased out, nickel production at both the Ontario and Manitoba divisions is expected to decline. The Company continues to explore options to fully utilize these facilities and pursue opportunities for profitable growth, including the purchase of external feedstock and additional mine development.

The Company's planned 2000 capital expenditures total $245 million, of which about $50 million relates to ongoing development of Inco's projects at Goro and Voisey's Bay. A major portion of the balance will be directed towards the continuing development of existing low-cost, high-grade ore mines in Canada.

Auditors' Report

To the Shareholders of Inco Limited:

We have audited the consolidated balance sheet of Inco Limited as at December 31, 1999, 1998 and 1997 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended appearing on pages 43 through 71 of this Report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada and the United States. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999, 1998 and 1997 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles in Canada.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Ontario

February 9, 2000

Management's Statement on Financial Reporting

The information and representations in this Annual Report have been prepared by management. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and, where appropriate, reflect management's best estimates and judgements. The financial information presented throughout this Report is consistent with the data presented in the consolidated financial statements.

Systems of internal accounting control are maintained in order to assure on a reasonable basis the reliability of this financial information. These systems include formal policies and procedures, the careful selection and training of qualified personnel, and an organization providing for appropriate delegation of authority and segregation of responsibilities. These systems are monitored by our internal auditors who perform extensive tests and related procedures at major locations worldwide. Our independent auditors, whose report on their audit examinations of the consolidated financial statements appears above, also review our systems of internal accounting control in accordance with generally accepted auditing standards for the purpose of expressing their opinion on the consolidated financial statements.

Financial management personnel, our internal auditors and our independent auditors meet with the Audit Committee of the Board of Directors at least three times a year to report on accounting, auditing, internal accounting control and financial reporting matters. The Audit Committee also has other duties which are described on page 74. This Annual Report has been reviewed and approved by the Board of Directors.

Michael D. Sopko

Chairman and
Chief Executive Officer

February 9, 2000

C. E. Munday

Executive Vice-President and
Chief Financial Officer

Consolidated Statement of Earnings

Year ended December 31 (In millions of United States dollars except per share amounts)	1999	1998	1997
Net sales (Note 13)	$ 2,113	$ 1,766	$ 2,367
Costs and expenses			
Cost of sales and operating expenses	1,845	1,735	2,051
Selling, general and administrative	99	96	109
Research and development	21	18	28
Exploration	23	29	38
Interest	73	86	81
	2,061	1,964	2,307
Earnings (loss) before income and mining taxes and minority interest	52	(198)	60
Income and mining taxes (Note 2)	21	(94)	30
Earnings (loss) before minority interest	31	(104)	30
Minority interest	9	8	13
Earnings (loss) from continuing operations	22	(112)	17
Earnings (loss) from discontinued operations (Note 3)	(5)	36	58
Net earnings (loss)	17	(76)	75
Dividends on preferred and class VBN shares (Notes 9 and 10)	(26)	(28)	(34)
Net earnings (loss) applicable to common shares	$ (9)	$ (104)	$ 41
Net earnings (loss) per common share (Notes 1 and 3)			
Basic and fully diluted			
Continuing operations	$ (0.02)	$ (0.85)	$ (0.10)
Discontinued operations	(0.03)	0.22	0.35
	$ (0.05)	$ (0.63)	$ 0.25

Consolidated Statement of Retained Earnings

Year ended December 31 (In millions of United States dollars)	1999	1998	1997
Retained earnings at beginning of year	$ 646	$ 766	$ 801
Net earnings (loss)	17	(76)	75
Common shares repurchased (Note 11)	–	–	(9)
Preferred dividends	(26)	(26)	(26)
Class VBN dividends	–	(2)	(8)
Common dividends – $ nil per share (1998 – $0.10; 1997 – $0.40)	–	(16)	(67)
Retained earnings at end of year	$ 637	$ 646	$ 766

The Notes to Consolidated Financial Statements on pages 46 through 71 are an integral part of these statements.

Consolidated Balance Sheet

December 31 (in millions of United States dollars)	1999	1998	1997
ASSETS			
Current assets			
Cash and marketable securities (Note 14)	$ 38	$ 82	$ 56
Accounts receivable	318	256	391
Inventories (Note 4)	472	473	796
Other (Note 2)	75	63	53
Total current assets	903	874	1,296
Capital assets (Note 5)	6,250	6,241	6,252
Other assets			
Long-term investments	82	84	86
Deferred charges (Note 7)	134	143	138
	216	227	224
	$ 7,369	$ 7,342	$ 7,772
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Long-term debt due within one year (Notes 6 and 14)	$ 190	$ 66	$ 54
Accounts payable	120	140	170
Accrued payrolls and benefits	118	136	137
Other accrued liabilities	152	195	217
Income and mining taxes payable	–	23	28
Total current liabilities	580	560	606
Other liabilities and deferred credits			
Long-term debt (Notes 6 and 14)	1,154	1,457	1,495
Deferred income and mining taxes	191	186	278
Post-retirement benefits (Note 7)	479	455	614
Future removal and site restoration costs (Note 8)	46	38	30
Minority interest	289	288	278
	2,159	2,424	2,695
Shareholders' equity			
Preferred shares (Note 9)	471	471	471
Class VBN shares (Note 10)	753	753	753
Common shareholders' equity			
Common shares issued and outstanding 181,569,141 (1998 – 166,059,082; 1997 – 166,018,649) (Notes 11 and 12)	2,747	2,466	2,466
Retained earnings	637	646	766
Cumulative currency translation adjustments	–	–	(7)
	3,384	3,112	3,225
Contingently issuable equity (Notes 9, 10 and 11)	22	22	22
	4,630	4,358	4,471
	$ 7,369	$ 7,342	$ 7,772

The Notes to Consolidated Financial Statements on pages 46 through 71 are an integral part of these statements.

Approved by the Board of Directors: Michael D. Sopko Scott M. Hand

Consolidated Statement of Cash Flows

Year ended December 31 (in millions of United States dollars)	1999	1998	1997
Operating activities			
Earnings (loss) before minority interest	$ 31	$ (104)	$ 30
Charges (credits) not affecting cash			
Depreciation	182	176	168
Depletion	66	68	58
Deferred income and mining taxes	(33)	(135)	(34)
Restructuring charges	–	64	–
Other	35	9	(35)
Decrease (increase) in non-cash working capital related to operations			
Accounts receivable	(67)	52	(46)
Inventories	1	81	56
Accounts payable and accrued liabilities	(54)	(27)	58
Income and mining taxes payable	(23)	(9)	(18)
Other	(12)	1	13
Accruals in excess of (less than) payments for post-retirement benefits	2	(2)	(7)
	128	174	243
Investing activities			
Capital expenditures	(260)	(437)	(535)
Acquisition of interest in subsidiary	(8)	–	–
Other	30	20	13
	(238)	(417)	(522)
Financing activities			
Long-term borrowings	206	419	360
Repayments of long-term debt	(385)	(437)	(94)
Common shares issued	281	–	17
Common shares repurchased	–	–	(24)
Preferred, class VBN and common dividends paid	(26)	(44)	(101)
Dividends paid to minority interest	(10)	(1)	(11)
	66	(63)	147
Discontinued operations (Note 3)	–	332	110
Increase (decrease) in cash and marketable securities	(44)	26	(22)
Cash and marketable securities at beginning of year	82	56	78
Cash and marketable securities at end of year (Note 17)	$ 38	$ 82	$ 56

The Notes to Consolidated Financial Statements on pages 46 through 71 are an integral part of these statements.

(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Inco Limited ("Inco") and its subsidiaries (the "Company") are prepared in accordance with accounting principles generally accepted in Canada, consistently applied, which, in the Company's case, conform in all material respects with accounting principles generally accepted in the United States except as explained in Note 18.

Principles of consolidation The financial statements of entities which are directly or indirectly controlled by Inco, referred to as subsidiaries, are consolidated. Entities which are not controlled and over which Inco has the ability to exercise significant influence, referred to as affiliates, are accounted for using the equity method. Investments in other entities are accounted for using the cost method.

Translation of financial statements into United States dollars These consolidated financial statements are expressed in United States dollars. Monetary assets and liabilities are translated into United States dollars using year-end rates of exchange. All other assets and liabilities are translated at applicable historical rates of exchange or at rates established by related forward currency contracts. Revenues, expenses and certain costs are translated at monthly average exchange rates except for inventoried costs, depreciation and depletion which are translated at historical rates. Realized exchange gains and losses and currency translation adjustments are included in earnings except for currency translation adjustments relative to long-term monetary items with a fixed and ascertainable life which are deferred and amortized on a straight-line basis over the life of the item.

Cash and marketable securities Cash and marketable securities comprise cash, time deposits and other interest-bearing instruments with original maturity dates less than three months.

Inventories Inventories are stated at the lower of cost and net realizable value. Cost for metals is mainly average production or purchase cost, and for supplies is average purchase cost.

Capital assets Capital assets are stated at cost. Such cost, in the case of the Company's mines and undeveloped properties, represents related acquisition and development expenditures. Financing costs, including interest, are capitalized when they arise from indebtedness incurred to finance the development, construction or expansion of significant mineral properties and facilities. When the net carrying value of a capital asset, less its related provision for future removal and site restoration costs and deferred income taxes, exceeds the estimated undiscounted future net cash flows together with its residual value, the excess is charged to earnings. The Company's estimates of future cash flows are subject to risks and uncertainties.

Exploration Exploration expenditures are expensed as incurred except in areas currently under development, where production is probable, or in areas under feasibility study, where there is production potential, in which case they are capitalized and amortized using the unit-of-production method.

Depreciation and depletion Depreciation is calculated using the straight-line method and, for the nickel operations in Indonesia, the unit-of-production method, and is based on the estimated economic lives of capital assets. Such lives are generally limited to a maximum of 20 years. Depletion is calculated by a method which allocates mineral property acquisition and mine development costs rateably to the tonnes of ore mined.

Environmental expenditures The operations of the Company have been, and may in the future be, affected from time to time in varying degree by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of future regulations and their overall effect upon the Company vary greatly from country to country and are not predictable. The Company's policy is to meet or, if possible, surpass standards set by relevant legislation, by the application of technically proven and economically feasible measures.

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against earnings as incurred or capitalized and depreciated depending on their future economic benefits. Estimated future removal and site restoration costs are charged against earnings on a straight-line basis over the estimated remaining life of the related business operation. Actual removal and site restoration expenditures are charged against the related liability.

Income and mining taxes Deferred income and mining taxes are recognized or provided in recognition of timing differences that arise in reporting depreciation and depletion, post-retirement benefits and other expense and revenue items for financial statement and for income and mining tax purposes. Investment tax credits are accounted for by the cost reduction method whereby investment tax credits related to the acquisition of assets are deferred and recognized in earnings as the related assets are depreciated, while those related to research and development expenses are included in earnings. Income taxes have not been provided on undistributed earnings of foreign subsidiaries because such earnings are considered to be reinvested indefinitely outside Canada.

Financial instruments and commodities contracts The Company periodically uses forward, option and swap contracts to hedge the effect of exchange rate changes on future local currency requirements. In addition, the Company uses forward, option and swap contracts to hedge the effect of price changes on a portion of the primary metals it sells. The Company also uses oil swap contracts to hedge the effect of price changes in respect of a portion of its energy requirements in Indonesia. Gains and losses on these contracts are deferred and recognized as a component of the related transaction. The Company also purchases and sells foreign currencies and metals by using forward contracts which have not been specifically identified as hedges. The values of these contracts are marked to market with resulting gains and losses included in earnings.

Post-retirement benefits The cost of providing benefits through defined benefit pensions and post-retirement benefits other than pensions is actuarially determined and recognized in earnings using the projected benefit method prorated on service. Differences arising from plan amendments, changes in assumptions and experience gains and losses are recognized in earnings over the expected average remaining service life of employees. The cost of providing benefits through defined contribution pension plans is charged to earnings in the period in respect of which contributions become payable.

Stock compensation plans Cash received from employees upon exercise of options for Common Shares and Class VBN Shares is credited to Common Shares issued and outstanding and Class VBN Shares, respectively. In respect of Common Share and Class VBN Share appreciation rights, compensation expense is determined and accrued over the vesting period of the option contracts based on the excess of the quoted market value of the respective shares over the exercise price.

Estimates Financial statements prepared in accordance with generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net earnings (loss) per Common Share Basic earnings (loss) per Common Share is calculated by dividing net earnings (loss) applicable to Common Shares by the weighted-average number of Common Shares outstanding which were 175,506,000 during 1999, 166,054,000 during 1998 and 166,731,000 during 1997. Fully diluted earnings (loss) per Common Share reflects the maximum possible dilution from potential conversions of outstanding convertible debt, preferred shares, Class VBN Shares, stock options and contingently issuable equity.

2. INCOME AND MINING TAXES

The provision (relief) for income and mining taxes, and by source, was as follows:

Year ended December 31	1999	1998	1997
Current taxes	$ 62	$ 47	$ 69
Current deferred	(8)	(6)	(5)
Future deferred	(33)	(135)	(34)
Deferred taxes	(41)	(141)	(39)
Income and mining taxes	$ 21	$ (94)	$ 30
Canada	$ (21)	$ (116)	$ 8
Indonesia	8	5	12
United Kingdom	10	8	7
United States	16	4	(3)
Other	8	5	6
	$ 21	$ (94)	$ 30

Earnings (loss) before income and mining taxes and minority interest, by source, were as follows:

Year ended December 31	1999	1998	1997
Canada	$ (106)	$ (278)	$ (48)
Indonesia	27	18	39
United Kingdom	22	24	26
United States	46	10	15
Other	63	28	28
	$ 52	$ (198)	$ 60

The sources of major timing differences and the tax effect of each were as follows:

Year ended December 31	1999	1998	1997
Depreciation and depletion	$ (19)	$ (131)	$ (51)
Post-retirement benefits	(10)	9	6
Other	(12)	(19)	6
Deferred taxes	$ (41)	$ (141)	$ (39)

The provision (relief) for income and mining taxes, by component, was as follows:

Year ended December 31	1999	1998	1997
Current taxes			
Canadian	$ 28	$ 26	$ 64
Foreign	34	21	5
	62	47	69
Deferred taxes			
Canadian	(49)	(142)	(56)
Foreign	8	1	17
	(41)	(141)	(39)
Income and mining taxes	$ 21	$ (94)	$ 30

The reconciliation between the combined federal-provincial statutory income tax rate in Canada and the effective income and mining tax rate was as follows:

Year ended December 31	1999	1998	1997
Provision (relief)			
Combined Canadian federal-provincial statutory income tax rate	41.7%	(41.7)%	41.7%
Resource and depletion allowances	(26.5)	0.3	(25.6)
Adjusted income tax rate	15.2	(41.4)	16.1
Mining taxes	19.7	(1.4)	31.6
	34.9	(42.8)	47.7
Currency translation adjustments	35.7	(0.4)	11.4
Tax rate differences	(32.1)	(5.0)	(7.8)
Other	1.9	0.7	(1.3)
Effective income and mining tax rate	40.4%	(47.5)%	50.0%

The 1999 rate of provision, compared with the 1998 rate of relief, principally reflected higher resource and depletion allowances attributable to higher resource income in Canada and increased tax rate differences, partially offset by higher mining taxes and non-deductible currency translation adjustments.

The 1998 rate of relief, compared with the rate of provision in 1997, was favourably affected by a reduction in the resource allowance and mining taxes as a result of lower resource income in Canada as a percentage of the loss in 1998 and earnings in 1997 and the effect of non-deductible currency translation adjustments.

In 1999 and 1997, the effective tax rate was favourably influenced, compared with the combined Canadian federal-provincial statutory income tax rate, by certain earnings derived outside of Canada, primarily in Indonesia, the United Kingdom and the United States, that are taxed at lower rates than those which prevail in Canada. In 1998, due to the loss, the impact of those lower rates was to increase the effective rate of relief.

At December 31, 1999, other current assets included current deferred income and mining taxes of $64 million (1998 – $53 million; 1997 – $32 million).

In the first quarter of 2000, the Company will adopt, retroactively as a change in accounting policy, a new accounting standard of the Canadian Institute of Chartered Accountants in respect of income taxes. This new standard will significantly change the manner in which deferred income taxes are calculated from the deferral method to the liability method. See Note 18 for a description of the principal differences between these two methods of accounting for income taxes and the impact on certain of the Company's assets and liabilities.

3. DISCONTINUED OPERATIONS

On October 28, 1998, the Company completed the sale of its 100 per cent interest in Inco Alloys International ("IAI"), its former alloys business segment, for gross proceeds of $365 million. An after-tax gain of $20 million from the sale of IAI was recorded in the fourth quarter of 1998. In accordance with the terms of the definitive agreement covering the sale, the sale price was subject to a post-closing adjustment based upon certain changes in IAI's net worth up to closing. The process for determining this adjustment was completed in October 1999, resulting in a $5 million effective reduction in the sale price and a corresponding $5 million loss from discontinued operations recorded in the third quarter of 1999.

On February 3, 1997, the Company completed the sale of its 100 per cent interest in Doncasters plc ("Doncasters"), its former engineered products business segment, through an underwritten initial public offering for gross proceeds of $132 million. An after-tax gain of $36 million from the sale of Doncasters was recorded in the first quarter of 1997.

The operating results of IAI, together with those of Doncasters, including the gain on sale of IAI in 1998 which was subsequently reduced in 1999 and Doncasters in 1997, have been included in earnings from discontinued operations.

Earnings from discontinued operations were as follows:

Year ended December 31	1999	1998	1997
Net sales	$ –	$ 454	$ 666
Operating earnings	$ –	$ 25	$ 40
Earnings before income taxes	$ –	$ 24	$ 36
Income taxes	–	8	14
	–	16	22
Gain (loss) on sale of discontinued operations, net of taxes of $nil (1998 – $23; 1997 – $4)	(5)	20	36
Earnings (loss) from discontinued operations	$ (5)	$ 36	$ 58

Cash provided by (used for) discontinued operations was as follows:

Year ended December 31	1999	1998	1997
Operating activities	$ –	$ 39	$ 35
Investing activities			
Net proceeds from sale of discontinued operations, net of subsidiary cash	–	310	111
Capital expenditures	–	(19)	(33)
Other	–	2	(3)
	–	293	75
Financing activities	–	–	–
Discontinued operations	$ –	$ 332	$ 110

The assets and liabilities of discontinued operations, comprising those of IAI at December 31, 1997, were as follows:

December 31	1997
Current assets	$ 352
Capital assets	187
Other assets	27
	566
Current liabilities	76
Non-current liabilities	158
	234
Net assets	$ 332

4. INVENTORIES

Inventories consisted of the following:

December 31	1999	1998	1997
Finished and in process metals	$ 396	$ 393	$ 693
Supplies	76	80	103
	$ 472	$ 473	$ 796

5. CAPITAL ASSETS

Capital assets consisted of the following:

December 31	1999	1998	1997
Mines and mining plants	$ 2,606	$ 2,572	$ 2,613
Processing facilities	3,205	3,061	2,811
Voisey's Bay project	3,490	3,474	3,420
Other	469	476	472
Primary metals facilities	9,770	9,583	9,316
Discontinued operations facilities	–	–	562
Other facilities	73	84	84
Total capital assets, at cost	9,843	9,667	9,962
Accumulated depreciation	2,654	2,554	2,797
Accumulated depletion	939	872	913
Total accumulated depreciation and depletion	3,593	3,426	3,710
	$ 6,250	$ 6,241	$ 6,252

The Company reviews and evaluates its capital assets for impairment when events or changes in economic and other circumstances indicate that the carrying value of such assets may not be recoverable. The net recoverable value of a capital asset is calculated by estimating its undiscounted future net cash flows together with its residual value. Future net cash flows are developed using assumptions that reflect the Company's planned course of action for a capital asset given the Company's best estimate of the most probable set of economic conditions. Key assumptions involved in estimating future net cash flows of the Voisey's Bay project include the project scope, timing and receipt of regulatory approvals, estimates of future metal prices, estimates of the ultimate size of the deposits, ore grades and recoverability, timing of commercial production, production volumes, operating and capital costs, and foreign currency exchange rates. Inherent in these assumptions are significant risks and uncertainties. It is possible that changes in future economic conditions and the resulting impact on some or all of these assumptions may require a significant reduction in the carrying value of the Voisey's Bay project.

At December 31, 1999, the net carrying value of capital assets under construction or development not subject to depreciation or depletion was $4,401 million (1998 – $4,267 million; 1997 – $4,066 million). Capitalized interest costs included in capital assets were $37 million in 1999 (1998 – $40 million; 1997 – $29 million).

6. LONG-TERM DEBT

The Company's long-term debt consisted of the following (weighted-average interest rates, where applicable, and repayment periods at December 31, 1999 are shown in parentheses):

December 31	1999	1998	1997
Inco Limited			
U.S.$ Revolving loans (7.0%) (a)	$ **109**	$ 305	$ 466
9.875% U.S.$ Debentures (2000 – 2019) (b)	**143**	150	150
5.75% Convertible U.S.$ Debentures (2004) (c)	**173**	173	173
15.75% Sterling Unsecured Loan Stock (2006) (d)	**45**	45	45
7.75% Convertible U.S.$ Debentures (2002 – 2016) (e)	**160**	167	173
9.6% U.S.$ Debentures (2022) (f)	**181**	187	187
Other (5.3%) (2000)	**104**	55	–
PT International Nickel Indonesia Tbk			
U.S.$ Loan facility (6.8%) (2000 – 2006) (g)	**421**	421	290
Other			
Sterling term loan	**–**	–	41
Other (6.5%) (2000 – 2009)	**8**	20	24
	1,344	1,523	1,549
Long-term debt due within one year	**190**	66	54
Long-term debt	$ **1,154**	$ 1,457	$ 1,495

(a) The Company maintains committed bank credit facilities. The existing facilities aggregated $840 million at December 31, 1999. The facilities are provided by a syndicate of banks under separate agreements, the terms of which are substantially the same. The facilities have a 364-day revolving period expiring on June 7, 2000. The revolving period of each of the facilities may be extended for one or more 364-day periods upon the mutual agreement of the Company and the respective bank. Any amounts advanced and outstanding at the expiration of the revolving period, if the revolving period has not been extended, may, at the Company's option, be converted into five-year term loans. At December 31, 1999, $109 million outstanding under revolving loan facilities comprised $64 million drawn under the existing $840 million revolving loan facilities and $45 million drawn under bank credit facilities which were converted in 1998 into five-year term loans. The facilities bear interest, when drawn, at 1 per cent over the London Interbank Offered Rate (LIBOR) during the revolving period and 1½ to 2 per cent over LIBOR for the five-year period, and provide that, so long as the facilities are in place and advances are outstanding, the Company will be required to maintain a Consolidated Debt to Net Worth Ratio, as defined therein, not to exceed 55:45. At December 31, 1999, the Consolidated Debt to Net Worth Ratio, as defined, was 20:80.

(b) The 9.875% U.S.$ Debentures are redeemable, at the Company's option, commencing in 1999 at an initial premium of 3.638 per cent, declining annually to 0.364 per cent in 2008 and at par thereafter.

(c) The 5.75% Convertible U.S.$ Debentures, which are listed on the New York Stock Exchange, are convertible, at the option of the holders, into Common Shares of the Company, at a conversion price of $30 (U.S.) per share. The Debentures are redeemable, at the Company's option, commencing in 1999 at an initial premium of 2.875 per cent, declining annually to redemption at par in 2004.

(d) The 15.75% Sterling Unsecured Loan Stock is redeemable in 2006 in sterling or, at the option of the holders, in U.S. dollars at a fixed exchange rate of one pound sterling to $1.98.

(e) The 7.75% Convertible U.S.$ Debentures, which are listed on the New York Stock Exchange, are convertible, at the option of the holders, into Common Shares of the Company at a conversion price of $38.25 (U.S.) per share. The Debentures are redeemable, at the Company's option, in 1999 at a premium of 1.55 per cent, declining annually to redemption at par in 2001.

(f) The 9.6% U.S.$ Debentures are redeemable, at the Company's option, commencing in 2002 at an initial premium of 4.8 per cent, declining annually to redemption at par in 2012.

(g) The Company's 59 per cent-owned subsidiary, PT International Nickel Indonesia Tbk ("PT Inco"), had outstanding at December 31, 1999 a loan facility aggregating $421 million consisting of a $340 million expansion loan (1998 – $340 million; 1997 – $209 million) and an $81 million loan. All loans under the loan facility are repayable in 13 equal semi-annual installments commencing March 31, 2000 and bear interest, when drawn, at ⅞ per cent over LIBOR in the first five years and one per cent over LIBOR in the last five years.

Interest expense on long-term debt for the years 1999, 1998, and 1997 was $67 million, $81 million and $73 million, respectively. The average effective interest rate on long-term debt at December 31, 1999 was 7.7 per cent. Approximately 48 per cent of such debt bears interest rates that are subject to periodic adjustments based on market interest rates. Approximately 93 per cent of long-term debt is effectively payable in U.S. dollars.

At December 31, 1999, long-term debt maturities and sinking fund requirements for each of the five years through 2004 were: 2000 – $190 million; 2001 – $74 million; 2002 – $99 million; 2003 – $115 million; 2004 – $254 million.

7. POST-RETIREMENT BENEFITS

The Company has defined pension plans covering essentially all employees and provides certain health care and life insurance benefits for retired employees.

The change in the funded status of the Company's post-retirement benefit plans was as follows:

	Pension benefits			Post-retirement benefits other than pensions		
Year ended December 31	**1999**	1998	1997	**1999**	1998	1997
Change in post-retirement benefits obligation						
Obligation at beginning of year	**$ 1,785**	$ 1,823	$ 1,768	**$ 526**	$ 645	$ 607
Service cost	**27**	28	32	**6**	8	8
Interest cost	**128**	140	144	**37**	48	48
Plan amendments	**7**	–	53	**–**	–	–
Changes in assumptions	**65**	204	–	**–**	48	30
Actuarial losses (gains)	**4**	65	74	**(9)**	–	9
Curtailment loss	**22**	–	–	**–**	–	–
Benefits paid	**(124)**	(126)	(136)	**(26)**	(27)	(32)
Sale of discontinued operations	**–**	(254)	(48)	**–**	(164)	(8)
Currency translation adjustments	**87**	(95)	(64)	**27**	(32)	(17)
Obligation at end of year	**$ 2,001**	$ 1,785	$ 1,823	**$ 561**	$ 526	$ 645
Change in pension plan assets						
Fair value of plan assets at beginning of year	**$ 1,569**	$ 1,877	$ 1,723			
Actual return on plan assets	**231**	126	323			
Employer contributions	**76**	70	71			
Benefits paid	**(118)**	(123)	(122)			
Sale of discontinued operations	**–**	(287)	(55)			
Currency translation adjustments	**75**	(94)	(63)			
Fair value of plan assets at end of year	**$ 1,833**	$ 1,569	$ 1,877			
Funded (unfunded) status of plans at end of year	**$ (168)**	$ (216)	$ 54	**$ (561)**	$ (526)	$ (645)
Unrecognized balance of January 1, 1986 net asset	**–**	–	(11)	**–**	–	–
Unrecognized actuarial and investment losses (gains)	**174**	205	(137)	**63**	52	5
Unrecognized prior service costs	**61**	81	131	**–**	–	–
Net post-retirement benefits asset (liability) at end of year	**$ 67**	$ 70	$ 37	**$ (498)**	$ (474)	$ (640)

The net post-retirement benefits asset (liability) is reflected in the consolidated balance sheet as follows:

	Pension benefits			Post-retirement benefits other than pensions		
December 31	1999	1998	1997	1999	1998	1997
Deferred charges	$ 79	$ 82	$ 52	$ –	$ –	$ –
Accrued payrolls and benefits	(12)	(12)	(15)	(19)	(19)	(26)
Post-retirement benefits	–	–	–	(479)	(455)	(614)
Net post-retirement benefits asset (liability)	$ 67	$ 70	$ 37	$ (498)	$ (474)	$ (640)

Post-retirement benefits expense included the following components:

	Pension benefits			Post-retirement benefits other than pensions		
Year ended December 31	1999	1998	1997	1999	1998	1997
Service cost	$ 27	$ 28	$ 32	$ 6	$ 8	$ 8
Interest cost	128	140	144	37	48	48
Expected return on plan assets	(132)	(137)	(134)	–	–	–
Amortization of net asset at January 1, 1986	–	(11)	(15)	–	–	–
Amortization of actuarial and investment losses (gains)	24	(14)	(6)	7	1	(2)
Amortization of unrecognized prior service costs	20	24	25	–	–	–
Curtailment loss	25	–	–	–	–	–
Settlement cost	–	6	–	–	–	–
Defined benefit pension and post-retirement benefits other than pensions expense	92	36	46	50	57	54
Defined contribution pension expense	4	5	7	–	–	–
Post-retirement benefits expense	$ 96	$ 41	$ 53	$ 50	$ 57	$ 54

In 1999, the Company offered incentives to certain employees eligible for retirement benefits resulting in a curtailment loss of $25 million.

Post-retirement benefits expense shown above includes pension income of $3 million in 1998 (1997 – $1 million expense) and post-retirement benefits other than pension expense of $8 million in 1998 (1997 – $11 million) in respect of the Company's discontinued operations.

The weighted-average assumptions used in the determination of the post-retirement benefits obligations at year-end were as follows:

December 31	Pension benefits 1999	1998	1997	Post-retirement benefits other than pensions 1999	1998	1997
Discount rate						
Canada	**7.0%**	7.0%	8.5%	**7.0%**	7.0%	8.5%
United States	**7.0%**	7.0%	7.5%	**7.0%**	7.0%	7.5%
United Kingdom	**7.0%**	7.0%	8.5%			
Expected return on plan assets	**9.0%**	9.0%	9.0%			
Rate of compensation increase	**3.0%**	4.0%	5.0%			

The composite health care cost trend rate used in measuring post-retirement benefits other than pensions was assumed to begin at eight per cent, gradually declining to five per cent by 2005 and remaining at those levels thereafter.

The projected pension benefits obligation and fair value of plan assets for pension plans with accumulated benefits obligations in excess of plan assets were as follows:

December 31	Pension benefits 1999	1998	1997
Projected benefits obligation	**$ 1,295**	$ 1,637	$ 175
Fair value of plan assets	**1,046**	1,394	68
Unfunded status	**$ (249)**	$ (243)	$ (107)

A one per cent increase (decrease) in the assumed composite health care cost trend rate for each year would increase (decrease) the accumulated post-retirement benefits other than pensions obligation at December 31, 1999 and net periodic post-retirement benefits other than pensions expense by approximately $81 million ($75 million) and $7 million ($7 million), respectively.

In the first quarter of 2000, the Company will adopt a new accounting standard of the Canadian Institute of Chartered Accountants in respect of employee future benefits. The Company adopted the requirement for accrual accounting in respect of post-retirement benefits other than pensions under the new accounting standard in 1995 and the other requirements of the new standard will be adopted prospectively.

8. FUTURE REMOVAL AND SITE RESTORATION COSTS

The estimation of future removal and site restoration costs depends on the development of environmentally acceptable closure and post-closure plans, which, in some cases, may require significant research and development to identify preferred methods which are economically sound and which, in many cases, may not be implemented for several decades. The Company has continued to utilize appropriate technical resources, including outside consultants, to develop specific site closure and post-closure plans in accordance with the requirements of the various jurisdictions within which it operates. Typical closure and progressive rehabilitation activities include, where applicable, demolition of buildings, removal of underground equipment, sealing of mine openings, treatment to reduce or prevent acid generation from stockpiled waste materials such as tailings, general clean-up activities aimed at returning the area to an environmentally acceptable condition, and post-closure care and maintenance.

In accordance with environmental regulations adopted by the Province of Ontario in 1991, the Company has developed rehabilitation and site restoration plans associated with the eventual closure of its operations in that province. The Company filed three closure plans by the end of 1997, having previously received approval from the Province of Ontario for the consolidation of its operating mines and properties in that province into 15 sites for purposes of closure plans, and filed the remaining 12 closure plans by the end of 1998. The Company has continued to develop its future tailings disposal and water management alternatives to accommodate up to approximately 40 years of future production. The Company believes that cost-effective tailings disposal alternatives exist within the ongoing operating activities of the Sudbury operations which would limit site restoration at closure to a care and maintenance activity, thus significantly reducing the costs of such site restoration.

In accordance with environmental regulations adopted by the Province of Manitoba in 1999, the Company is in the process of developing reclamation plans associated with the eventual closure of operations in that province. The Company will submit six reclamation plans for its mines and processing facilities by 2002, even though it is highly unlikely that the Company would have any intentions of closing its operations at that time. The Company continued to develop its future tailings disposal and water management alternatives. The ongoing operating procedures associated with these alternatives limit site restoration to a care and maintenance activity after the operations are closed.

Closure plans for the proposed mine and mill facilities were prepared and submitted in 1998 in connection with the environmental review process of the Company's Voisey's Bay property in the Province of Newfoundland and Labrador.

The Company follows a policy of progressive rehabilitation at its Indonesian operations whereby land disturbed by mining activities is revegetated on an ongoing basis. Based on an independent feasibility study, the expansion of facilities in Soroako will meet or surpass current standards in Indonesia and Canada for containment of contaminant discharges to air, water and land.

Site characterization studies for closure plans are in the process of being prepared for the Company's surface facilities in the United States and the United Kingdom. However, based on currently available information, there are no required significant site restoration activities associated with these facilities.

The Company incurs substantial removal and site restoration costs on an ongoing basis which will significantly reduce future removal and site restoration costs that may otherwise be incurred following the closure of any of the Company's sites. This progressive rehabilitation includes tailings management, land reclamation and revegetation programs, decommissioning and demolition of plants and buildings, and waste management activities. Operating costs associated with ongoing environmental and reclamation programs, including progressive rehabilitation, aggregated $7 million in 1999, $12 million in 1998 and $27 million in 1997. Capital expenditures on environmental projects were $3 million in 1999, $89 million in 1998 and $25 million in 1997.

Although the ultimate amount to be incurred is uncertain, the total liability for future removal and site restoration costs in respect of the Company's worldwide operations, to be incurred primarily after cessation of operations, is estimated to be approximately $300 million at December 31, 1999. In recognition of this future liability, the Company, starting in 1995, annually provides a financial reserve of $10 million for future removal and site restoration costs. This amount is based upon the estimated remaining lives of the Company's applicable ore reserves and facilities and is in addition to ongoing operating and capital expenditures. The estimate of the total liability for future removal and site restoration costs has been developed from independent environmental studies including an evaluation of, among other factors, currently available information with respect to closure plans and closure alternatives, the anticipated method and extent of site restoration using current costs and existing technology, and compliance with presently enacted laws, regulations and existing industry standards. The total liability for future removal and site restoration costs represents estimated expenditures associated with closure, progressive rehabilitation and post-closure care and maintenance. Potential recoveries of funds from the future sale of assets upon the ultimate closure of operations have not been reflected in the estimate of the total liability or related annual provision.

In view of the uncertainties concerning environmental remediation, the ultimate cost of future removal and site restoration to the Company could differ from the estimated amounts provided. The estimate of the total liability for future removal and site restoration costs is subject to change based on amendments to laws and regulations and as new information concerning the Company's operations becomes available. Future changes, if any, to the estimated total liability as a result of amended requirements, laws, regulations and operating assumptions may be significant and would be recognized prospectively as a change in estimate, when applicable. Environmental laws and regulations are continually evolving in all regions in which the Company operates. The Company is not able to determine the impact, if any, of environmental laws and regulations that may be enacted in the future on its financial position due to the uncertainty surrounding the ultimate form that such future laws and regulations may take.

9. PREFERRED SHARES

The Company is authorized to issue 30,000,000 Preferred Shares with no par value, which are issuable in series for a maximum consideration of $750 million (Cdn.) or its equivalent in other currencies.

Preferred Shares Series E On August 21, 1996, the Company issued 9,424,657 5.5% Convertible Redeemable Preferred Shares Series E ("Preferred Shares Series E"), with an issue price of $50 (U.S.) per share, for an aggregate face value of $471 million, as partial consideration for the acquisition of Diamond Fields Resources Inc. ("Diamond Fields"). The Preferred Shares Series E have an annual cumulative dividend of 5.5 per cent payable in U.S. dollars or the equivalent in Canadian funds. The Preferred Shares Series E are convertible at any time into Common Shares of the Company at a conversion rate, subject to certain adjustments in the event of stock splits, stock dividends, certain exchange or tender offers and certain fundamental corporate changes, of 1.19474 Common Shares for each Preferred Share Series E and will be redeemable at the option of the Company after five years at an initial premium of 2.75 per cent, declining annually to 0.55 per cent in 2005, and are subject to mandatory redemption at the $50 issue price (or the equivalent in Canadian currency at the option of the holder), together with all then accrued and unpaid dividends, on August 21, 2006. The Company has the right, subject to certain exceptions, to satisfy the optional or mandatory redemption price payable by issuing Common Shares of the Company based upon a formula equivalent to 95 per cent of a weighted-average trading price for the Common Shares over a 20-day period ending five days prior to the particular redemption date. The Preferred Shares Series E have general voting rights on the basis, subject to certain adjustments in the event of certain fundamental corporate changes, of one vote per share and have a separate series vote in the event of certain fundamental changes which require a series vote under applicable corporate laws. The Preferred Shares Series E also have a right to elect two directors in the event that, and so long as, cumulative quarterly dividends on the series are in arrears for six or more quarters.

Contingently issuable equity includes contingently issuable Preferred Shares Series E upon exercise of former Diamond Fields' stock options.

Changes in the Preferred Shares Series E were as follows:

	Number of shares	Amount
December 31, 1996	9,426,694	$ 471
Shares converted to Common Shares	(646)	–
Shares issued upon exercise of former Diamond Fields' stock options	1,213	–
December 31, 1997 and 1998	9,427,261	471
Shares issued upon exercise of former Diamond Fields' stock options	3,367	–
December 31, 1999	**9,430,628**	**$ 471**

10. CLASS VBN SHARES

On August 21, 1996, the Company issued 25,892,469 Class VBN Shares valued at $753 million as partial consideration for the acquisition of Diamond Fields. The Class VBN Shares issued represent a separate class of equity shares which are intended to reflect an interest, aggregating approximately 25 per cent, in the financial performance of the Voisey's Bay project and all future discoveries in Labrador with respect to which Voisey's Bay Nickel Company Limited ("VBNC"), formerly a 75 per cent-owned subsidiary of Diamond Fields and now a wholly-owned subsidiary of the Company, has the right to explore and develop. Accordingly, the Class VBN Shares are intended to provide holders with a financial return based on the performance of VBNC and not any other subsidiaries, divisions or operations of the Company. Holders of Class VBN Shares have no direct rights in the equity or assets of VBNC or the assets of the Company, except on a liquidation, dissolution or winding-up of the Company where, subject to prior rights of the Preferred Shares and any other prior ranking shares, the holders of the Class VBN Shares would be entitled to receive, on a pro rata basis, the proportion of the assets remaining available for distribution to shareholders equivalent to the number of votes attaching to the Class VBN Shares divided by the votes attaching to both the Common Shares and Class VBN Shares in total then outstanding. The Class VBN Shares have certain general and other voting rights and rights to convert into Common Shares of the Company upon certain stated events as summarized below.

Subject to any preference as to dividends provided to the Preferred Shares and any other prior ranking shares, the holders of the Class VBN Shares are entitled to dividends as and when declared by the Company's Board of Directors. The Board of Directors, in its sole discretion, may declare dividends in respect of the Class VBN Shares without declaring dividends in respect of the Common Shares and vice-versa. If the Board of Directors declares dividends in respect of both the Common Shares and Class VBN Shares, the Directors may, in their sole discretion, declare dividends payable in respect of each such class in equal or unequal amounts and at the same time or at different times, provided that any and all dividends declared on the Common Shares and Class VBN Shares shall rank equally as to the entitlement to receive payment of any such dividends so declared, without preference or distinction. However, until August 21, 2006, to the extent that dividends which are declared and paid in accordance with the Company's dividend policy with respect to the Class VBN Shares do not provide the holders with dividends on a per share basis of at least 0.8 times, subject to certain adjustments, the per share regular cash dividends declared and paid on the Common Shares in any year, dividends shall be declared in respect of the Class VBN Shares in a per share amount of not less than 0.8 times the per share amount of the regular cash dividends declared in respect of the Common Shares for such year. This entitlement does not extend to any special dividends or non-cash dividends declared on the Common Shares.

The Board of Directors of the Company has approved a dividend policy for the Class VBN Shares pursuant to which it intends to declare, on a quarterly basis in arrears, non-cumulative cash dividends on the Class VBN Shares equal to the Adjusted Net Income, as defined, of VBNC multiplied by an Ownership Factor, as defined. The Adjusted Net Income of VBNC is to be determined quarterly and will generally be equal to the separate net income or loss of VBNC adding back non-cash charges, including the effects of purchase accounting resulting from the Company's acquisition of Diamond Fields, less the sum of (a) projected principal debt payments and capital expenditures of VBNC for the next succeeding quarter after the quarter in respect of which the particular dividend is being calculated, and (b) cash to be retained as reserves to cover any liabilities for which adequate reserves have not already been established. The Ownership Factor is a fraction in which the numerator is the Class VBN Shares outstanding on the record date for such dividend and the denominator is four times the original number of Class VBN Shares issued (taking into account contingently issuable Class VBN Shares upon exercise of former Diamond Fields' stock options), subject to such adjustments to the denominator from time to time as deemed appropriate by the Board of Directors of the Company, including the issuance of additional Class VBN Shares pursuant to employee stock option plans, the purchase of Class VBN Shares by the Company, and the contribution of cash or property by the Company.

The Class VBN Shares are convertible by the Company, at any time after 2006 or in the event of the sale of all or substantially all of VBNC's assets or more than 50 per cent of VBNC's common shares, into Common Shares of the Company on the basis of dividing the then current market price (based upon a weighted-average 20-day trading price formula) of one Class VBN Share by the then current market price (based upon a weighted-average 20-day trading price formula) of one Common Share and multiplying that amount by a factor of 1.2. The Class VBN Shares are also convertible, at the holder's option, on the same basis as the Company's optional conversion right into Common Shares of the Company in the event of sale, by the Company, of more than 24 per cent of the shares of VBNC. Holders also have the right to convert, subject to specified terms and conditions, in the event of certain offers by third parties to acquire Common Shares of the Company. The Class VBN Shares, together with the Common Shares and the Preferred Shares Series E, carry general voting rights and holders of Class VBN Shares are entitled, subject to adjustment in certain events, to one vote per share on all matters submitted for a vote. The Class VBN Shares also have a right, as a separate class, to elect two directors to the Company's Board of Directors and certain other class voting rights in the event of certain fundamental corporate changes. Changes in the Class VBN Shares were as follows:

	Number of shares	Amount
December 31, 1996	25,899,135	$ 753
Shares issued upon exercise of former Diamond Fields' stock options	3,333	–
December 31, 1997 and 1998	25,902,468	753
Shares issued upon exercise of former Diamond Fields' stock options	9,250	–
December 31, 1999	**25,911,718**	**$ 753**

Selected condensed financial information of VBNC, including the effects of purchase accounting adjustments, follows:

OPERATING RESULTS	Quarter ended December 31, 1999	Year ended December 31, 1999	Year ended December 31, 1998	Year ended December 31, 1997
Revenues	$ –	$ –	$ –	$ –
Other (income) expenses, net	4	18	(2)	(1)
Earnings (loss) before income and mining taxes	(4)	(18)	2	1
Income and mining taxes	(2)	(5)	(3)	(1)
Net earnings (loss)	$ (2)	$ (13)	$ 5	$ 2
Non-cash items	(1)			
Projected capital expenditures for the next succeeding quarter	(4)			
Adjusted loss, as defined	$ (7)			
Dividend per Class VBN Share	$ –	$ –	$ 0.08	$ 0.32

ASSETS, LIABILITIES AND SHAREHOLDER'S EQUITY December 31	1999	1998	1997
Current assets	$ –	$ 1	$ 1
Capital assets	3,452	3,436	3,397
Other assets	11	6	3
	$ 3,463	$ 3,443	$ 3,401
Current liabilities	$ 1	$ 5	$ 10
Other liabilities	193	156	114
Shareholder's equity	3,269	3,282	3,277
	$ 3,463	$ 3,443	$ 3,401

CASH FLOWS

Year ended December 31	1999	1998	1997
Cash provided by (used for):			
Net earnings (loss)	$ (13)	$ 5	$ 2
Decrease (increase) in non-cash working capital	(3)	(5)	6
Capital expenditures	(16)	(39)	(58)
Due to Inco Limited and subsidiaries	37	42	53
Other	(5)	(3)	(2)
	$ –	$ –	$ 1

Cash advances from Inco bear interest at ¼ per cent over the prime rate in Canada for Canadian dollar advances and ¾ per cent over LIBOR for U.S. dollar advances.

11. COMMON SHARES

The Company is authorized to issue an unlimited number of Common Shares without nominal or par value.

Changes in the Common Shares were as follows:

	Number of shares	Amount
December 31, 1996	166,460,645	$ 2,464
Shares cancelled under Repurchase Program	(1,000,000)	(15)
Shares issued in lieu of cash dividends	10,946	1
Shares sold under Share Purchase Plan	2,949	–
Options exercised	516,536	15
Shares issued under incentive plan	19,375	1
Shares issued upon exercise of former Diamond Fields' stock options	7,427	–
Shares issued on conversion of Preferred Shares Series E	771	–
December 31, 1997	166,018,649	2,466
Shares issued under incentive plan	40,433	–
December 31, 1998	166,059,082	2,466
Shares sold under public offering	15,000,000	273
Options exercised	489,450	7
Shares issued upon exercise of former Diamonds Fields' stock options	20,609	1
December 31, 1999	**181,569,141**	**$ 2,747**

In May 1999, the Company sold 15,000,000 Common Shares through an underwritten public offering on a "bought deal" basis principally in Canada and the United States for net cash proceeds of $273 million.

During 1997, the Company acquired 1,000,000 Common Shares pursuant to a normal course issuer bid which commenced in August 1997 and which expired in August 1998. All shares under this program were repurchased for cancellation at an aggregate cost of $24 million in 1997, of which $15 million was charged in 1997 to Common Shares issued and outstanding, based on the average per-share amount in the Common Share account at the date of purchase and the balance of $9 million was charged in 1997 to retained earnings.

Contingently issuable equity includes contingently issuable Common Shares upon exercise of former Diamond Fields' stock options.

In September 1998, the Board of Directors of the Company, given the expiration of a shareholder rights plan which had been implemented in October 1988, adopted a new shareholder rights plan that took effect on October 3, 1998. This new plan, set forth in a Rights Plan Agreement entered into between the Company and CIBC Mellon Trust Company, as Rights Agent, is designed to (i) encourage the fair and equal treatment of shareholders in connection with any bid for control of the Company by providing them with more time than the minimum statutory period during which such bid must remain open in order to fully consider their options, and (ii) provide the Company's Board of Directors with additional time, if appropriate, to pursue other alternatives to maximize shareholder value.

The new plan was amended in certain respects by the Company's Board of Directors in February 1999 to ensure that the plan was consistent with plans which had been recently adopted by other Canadian companies. The new plan, approved by shareholders at the Company's 1999 Annual and Special Meeting of Shareholders on April 28, 1999, will remain in effect until October 2008 subject to reconfirmation by holders of the Company's voting securities at the Company's annual meetings in the years 2002 and 2005. The following represents a summary of some of the key terms of the plan.

The rights issued under the new plan will initially attach to and trade with the Company's Common Shares and no separate certificates will be issued unless an event triggering these rights occurs. Certificates evidencing Common Shares will be legended to reflect that they evidence the rights until the Separation Time (as defined below). Holders of the Company's 7.75% Convertible U.S.$ Debentures, 5.75% Convertible U.S.$ Debentures, Preferred Shares Series E and Class VBN Shares and the certificates of entitlement attached thereto (which entitle their holders to receive rights in the event that the related security is converted into Common Shares) will generally be entitled to receive, upon conversion of the relevant security and presentment of the certificate of entitlement, respectively, rights in an amount equal to the number of Common Shares issued upon conversion of such securities.

The rights will separate from the Common Shares ("Separation Time") and be transferable, trade separately from the Common Shares and become exercisable only when a person acquires, or announces its intention to acquire, beneficial ownership of 20 per cent or more of (i) the Company's then outstanding Voting Securities (defined to include the Company's Common Shares, Class VBN Shares and Preferred Shares Series E) or (ii) its then outstanding Common Shares alone, in either case without complying with the "permitted bid" provisions of the plan (as summarized below), or without the approval of the Company's Board of Directors. Should such an acquisition occur, each right would entitle its holder, other than the acquiring person or persons related to or acting jointly or in concert with such person, to purchase additional Common Shares of the Company at a 50 per cent discount to the then current market price. The acquisition by any person (an "Acquiring Person") of 20 per cent or more of the Company's Common Shares or Voting Securities, other than by way of a permitted bid, is referred to as a "Flip-in Event". Any rights held by an Acquiring Person will become void upon the occurrence of a Flip-in Event.

A "permitted bid" is a bid made to all holders of the Company's outstanding Voting Securities that is open for at least 60 days. If, at the end of such 60 day period, more than 50 per cent of the Company's then outstanding Common Shares, other than those securities owned by the party making the bid and certain related persons, have been tendered, such party may take up and pay for the Common Shares but must extend the bid for a further 10 business days to allow other shareholders to tender, thus providing shareholders who had not tendered to the bid with enough time to tender to the bid once it is clear that a majority of Common Shares have been tendered.

Under this new plan the Company can (i) waive its application to enable a particular take-over bid to proceed, in which case the plan will be deemed to have been waived with respect to any other take-over bid made prior to the expiry of any bid subject to such waiver or (ii) with the prior approval of the holders of Voting Securities or rights, redeem the rights for nominal consideration at any time prior to a Flip-in Event.

12. STOCK COMPENSATION PLANS

The Company's stock option plans authorize the granting of options to key employees to purchase Common Shares and Class VBN Shares at prices not less than 100 per cent of their market value on the day the option is granted. The 1997 plan, which replaced the 1993 plan and has a term of five years, authorized the granting of options up to 6,000,000 Common Shares and 1,000,000 Class VBN Shares. The Company's stock option plans provide that no shares subject to option shall be purchasable after 10 years from the date of grant and also include an anti-dilution provision to protect the option-holder for stock splits or other significant capital changes. This provision was applied to options outstanding on December 22, 1988 in order to reflect a special cash dividend of $10 per Common Share payable to shareholders of record on that date. For certain option-holders, the anti-dilution adjustment increased the number of options outstanding and reduced the related option price. For the remaining option-holders, to avoid possible adverse tax treatment, the anti-dilution adjustment for options issued after February 15, 1984 was made in the form of cash and Common Shares when the options were exercised or on January 8, 1992 for options which had not been exercised at that time.

At December 31, 1999, outstanding options for 2,392,634 Common Shares and 56,000 Class VBN Shares, as amended for the anti-dilution adjustment, also carry share appreciation rights (SARs). These SARs entitle an optionee, in lieu of exercising an option to purchase Common Shares, to surrender all or a portion of the related option in exchange for an amount equal to the difference between the then-market price per share and the exercise price per share specified in the stock option, multiplied by the number of shares covered by the stock option, or portion thereof so surrendered. The Company may elect to deliver Common Shares, cash, or a combination of Common Shares and cash, equal in value to such difference. Compensation expense in respect of SARs for the years 1999, 1998 and 1997 was $8 million, $ nil and $ nil, respectively.

One-half of stock options granted are exercisable on or after six months from the grant date, with the remaining options exercisable on or after 18 months from the grant date.

Pursuant to the Company's long-term incentive plans ("LTIP"), awards in the form of Common Shares are made to certain key employees of the Company subject to transfer, sale and encumbrance restrictions for a three-year period from the date of the award. In the year ended December 31, 1999, the Company did not award any Common Shares (1998 – 40,433 Common Shares; 1997 – 19,375 Common Shares) in respect of LTIP plans.

Changes in Common Share options outstanding are summarized as follows:

	Number of Common Shares		
Year ended December 31	1999	1998	1997
Outstanding at beginning of year	**5,129,418**	3,431,668	2,897,109
Options granted	**1,818,000**	1,795,000	1,122,000
Options exercised	**(508,750)**	–	(504,991)
Options terminated	**(118,250)**	(97,250)	(82,450)
Outstanding at end of year	**6,320,418**	5,129,418	3,431,668
Available for grant at December 31	**2,424,000**	4,231,000	22,000
Exercisable at December 31	**5,412,918**	4,246,918	2,887,168

Changes in the weighted-average exercise price of Common Share options are summarized as follows:

	Weighted-average exercise price		
Year ended December 31	1999	1998	1997
Outstanding at beginning of year	**$ 25.50**	$ 30.97	$ 29.09
Options granted	**11.56**	15.03	34.33
Options exercised	**(13.58)**	–	(28.18)
Options terminated	**(29.95)**	(25.22)	(27.65)
Outstanding at end of year	**$ 22.37**	$ 25.50	$ 30.97

The following table summarizes information about Common Share options outstanding at December 31, 1999.

	Common Share options outstanding			Common Share options exercisable	
Range of exercise prices	Number outstanding at Dec. 31, 1999	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number exercisable at Dec. 31, 1999	Weighted-average exercise price
$ 11 – 16	3,067,250	8.6	$ 13.22	2,159,750	$ 13.91
17 – 24	133,500	3.3	23.07	133,500	23.07
25 – 37	3,119,668	5.9	31.34	3,119,668	31.34
$ 11 – 37	6,320,418	7.1	$ 22.37	5,412,918	$ 24.18

The expiration dates of Common Share options outstanding at December 31, 1999 ranged from February 13, 2000 to February 9, 2009. At December 31, 1999, there were 293 employees participating in the Common Share options plans.

Changes in Class VBN Share options outstanding are summarized as follows:

	Number of Class VBN Shares	
Year ended December 31	1999	1998
Outstanding at beginning of year	152,000	–
Options granted	86,000	152,000
Options exercised	–	–
Options terminated	–	–
Outstanding at end of year	238,000	152,000
Available for grant at December 31	762,000	848,000
Exercisable at December 31	195,000	76,000

Changes in the weighted-average exercise price of Class VBN Share options are summarized as follows:

	Weighted-average exercise price	
Year ended December 31	1999	1998
Outstanding at beginning of year	$ 12.19	$ –
Options granted	7.44	12.19
Options exercised	–	–
Options terminated	–	–
Outstanding at end of year	$ 10.47	$ 12.19

The following table summarizes information about Class VBN Share options outstanding at December 31, 1999.

	Class VBN Share options outstanding			Class VBN Share options exercisable	
Range of exercise prices	Number outstanding at Dec. 31, 1999	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number exercisable at Dec. 31, 1999	Weighted-average exercise price
$ 7 – 10	86,000	9.1	$ 7.44	43,000	$ 7.44
11 – 16	152,000	8.0	12.19	152,000	12.19
$ 7 – 16	238,000	8.4	$ 10.47	195,000	$ 11.14

The expiration dates of Class VBN Share options outstanding at December 31, 1999 ranged from January 14, 2008 to February 9, 2009. At December 31, 1999, there were 17 employees participating in the Class VBN Share options plan.

13. NATURE OF OPERATIONS AND SEGMENT INFORMATION

The Company's operations consist principally of the primary metals business. The Company is a leading producer of nickel and an important producer of copper, precious metals and cobalt. The primary metals business includes the finished products segment, which comprises the Company's mining and processing operations of the Ontario and Manitoba divisions in Canada, the Company's refining operations in the United Kingdom and interests in refining operations in Japan and other Asian countries, and the intermediates segment, which comprises the Company's mining and processing operations in Indonesia, where nickel in matte, an intermediate product, is produced and sold primarily into the Japanese market. In addition, the Company holds mineral claims and licenses covering the undeveloped Voisey's Bay nickel-copper-cobalt deposit in the Province of Newfoundland and Labrador. The Company sold its alloys business segment in October 1998 and its engineered products business segment in February 1997 as described in Note 3.

Other assets which are not allocated to operating segments consist of corporate assets, principally cash, securities, pension assets, certain receivables and fixed assets and discontinued operations in 1997.

Net sales to customers by product were as follows:

Year ended December 31	1999	1998	1997
Primary nickel	**$ 1,658**	$ 1,262	$ 1,820
Copper	**196**	245	322
Precious metals	**152**	131	89
Cobalt	**48**	73	72
Other	**59**	55	64
	$ 2,113	$ 1,766	$ 2,367

Net sales to customers include sales at market prices to affiliates in Japan, Taiwan and South Korea aggregating $456 million in 1999, $220 million in 1998 and $348 million in 1997. No single non-affiliated customer accounted for more than 10 per cent of the Company's total sales in 1999, 1998 or 1997. At December 31, 1999, accounts receivable included amounts due from affiliates of $76 million (1998 – $33 million; 1997 – $46 million).

Operating earnings (loss) comprise earnings (loss) before income and mining taxes, interest expense, general corporate income and expenses, and minority interest.

DATA BY OPERATING SEGMENTS

	Finished products			Intermediates			Voisey's Bay project			Eliminations			Primary metals		
Year ended December 31	1999	1998	1997	1999	1998	1997	1999	1998	1997	1999	1998	1997	1999	1998	1997
Net sales to customers	$ 2,069	1,738	2,327	$ 44	28	40	$ –	–	–	$ –	–	–	$ 2,113	1,766	2,367
Intersegment sales	–	–	–	165	117	135	–	–	–	(165)	(117)	(135)	–	–	–
Net sales	$ 2,069	1,738	2,327	$ 209	145	175	$ –	–	–	$ (165)	(117)	(135)	$ 2,113	1,766	2,367
Operating earnings (loss)	$ 178	(44)	178	$ 36	9	41	$ (8)	(7)	(4)	$ (26)	7	3	$ 180	(35)	218
Non-operating items:															
Interest expense													73	86	81
Corporate selling, general and administrative expenses													60	59	68
Other expenses (income), net													(5)	18	9
Earnings (loss) before income and mining taxes and minority interest													$ 52	(198)	60
Depreciation and depletion	$ 196	204	190	$ 52	40	36	$ –	–	–	$ –	–	–	$ 248	244	226
Capital expenditures	$ 114	135	221	$ 130	248	239	$ 16	54	75	$ –	–	–	$ 260	437	535
Identifiable assets at December 31	$ 2,374	2,343	2,562	$ 1,310	1,246	1,078	$ 3,490	3,475	3,421	$ (25)	–	(6)	$ 7,149	7,064	7,055
Other assets													220	278	717
Total assets at December 31													$ 7,369	7,342	7,772

DATA BY GEOGRAPHIC LOCATION

	Canada			United States			United Kingdom			Asia			Total foreign			Total		
Year ended December 31	1999	1998	1997	1999	1998	1997	1999	1998	1997	1999	1998	1997	1999	1998	1997	1999	1998	1997
Net sales to customers	$ 65	152	268	$ 678	537	685	$ 429	452	495	$ 941	625	919	$2,048	1,614	2,099	$2,113	1,766	2,367
Capital assets at December 31	$4,924	5,038	5,072	$ 24	24	167	$ 36	38	79	$1,266	1,141	934	$1,326	1,203	1,180	$6,250	6,241	6,252

Net sales to customers by geographic location is based on the location in which the sale originated. Included in Asia are capital assets of PT Inco's Indonesian operations of $1,158 million at December 31, 1999 (1998 – $1,081 million; 1997 – $875 million).

14. FINANCIAL INSTRUMENTS AND COMMODITIES CONTRACTS

The carrying values for all financial instruments and commodities contracts approximated fair values with the following exceptions:

December 31	1999		1998		1997	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets						
Cash and marketable securities	$ 38	$ 38	$ 82	$ 82	$ 56	$ 56
Miscellaneous investments	73	61	76	70	74	66
Financial liabilities						
Long-term debt including amount due within one year	1,344	1,312	1,523	1,508	1,549	1,587
Derivatives						
Forward nickel sales contracts	–	(7)	–	(5)	–	3
Copper put options	–	–	–	–	3	16
Copper call options	–	–	–	–	–	–
Oil swaps	–	2	–	(3)	–	(3)
Forward currency contracts	–	2	–	(16)	–	(21)
Currency put option contracts	–	–	–	–	–	–
Currency call option contracts	–	1	–	–	–	–

The fair value of the Company's financial instruments at December 31 is based on relevant market information. The fair value of cash and marketable securities and miscellaneous investments, including debt securities (both available-for-sale and held-to-maturity investments) and equity investments, is based on quoted market prices at the reporting date for those or similar investments. The fair value of the Company's long-term debt and copper options is estimated based on quoted market prices. The fair value of forward currency, currency options and oil swap contracts generally reflects the estimated amounts that the Company would receive (pay) to terminate such contracts at the reporting date, thereby taking into account the current unrealized gains or losses in respect of open contracts.

In general, the Company does not use derivative instruments to hedge its exposure to fluctuating nickel prices. The Company does, however, enter into forward sales and/or purchase contracts with the London Metal Exchange ("LME") to hedge its exposure to changes in prices of purchased nickel and of Inco-source nickel to be delivered to customers three or more months in the future. At December 31, 1999, the Company had outstanding LME forward sales contracts to sell 12,444 tonnes of nickel during 2000 at prices averaging from $7,474 to $8,620 per tonne ($3.39 to $3.91 per pound).

Depending on market conditions, the Company enters into copper derivative contracts with several financial institutions. These contracts are intended to protect the Company against the impact of falling copper prices by providing a minimum price for the Company's future copper production and, in the case of the options, allow the Company to benefit from higher copper prices. There were no copper derivative contracts outstanding at December 31, 1999.

The Company uses oil swap contracts to hedge the effect of price changes in respect of a portion of its energy requirements in Indonesia. Under such contracts, the Company receives or makes payments based on the difference between a fixed and a floating price for fuel oil. At December 31, 1999, the Company had swap contracts with a financial institution to exchange payments on 38,150 tonnes of fuel oil in 2000. Under the swap contracts, the Company pays fixed prices averaging $81.82 per tonne in 2000 and receives a floating price.

At December 31, 1999, the Company had outstanding currency call option contracts, giving it the right to purchase Cdn. $15 million at an average rate to U.S. dollars of $0.685 in each of the first three quarters of 2000, and outstanding currency put option contracts, giving the buyer the right to sell to the Company Cdn. $15 million at an average rate to U.S. dollars of $0.667 in each of the first three quarters of 2000. The purpose of the Company's Canadian dollar hedging activities is to reduce the risk that the eventual U.S. dollar cash flows relating to a portion of its future Canadian production costs will be adversely affected by an appreciation of the Canadian dollar. The Company had outstanding forward currency contracts to purchase Cdn. $111 million at average rates to U.S. dollars ranging from $0.67 to $0.68 in January 2000 to hedge the repayment of certain Canadian dollar debt. The Company does not engage in any significant foreign currency activities which have not been specifically identified as hedges.

The Company is exposed to credit risk in the event of non-performance by counterparties in connection with its derivative contracts. The Company does not obtain collateral or other security to support financial instruments subject to credit risk but mitigates this risk by dealing only with financially sound counterparties and, accordingly, does not anticipate loss for non-performance. There is no substantial concentration of credit risk resulting from these contracts.

The Company has a limited recourse liability in respect of the sale of undivided interests in certain accounts receivable in the amount of $42 million at December 31, 1999.

15. CONTINGENCIES

(a) Year 2000 The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors or systems failures when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 issue affecting the Company, including those related to the efforts of its customers, suppliers or other third parties, have been fully resolved.

(b) Other In the course of its operations, the Company is subject to environmental and other claims and legal proceedings. The Company does not believe that any such pending claims or proceedings will significantly impair its operations or have a material adverse effect on its financial position.

16. RESTRUCTURING CHARGES

The 1998 financial results of the Company included a pre-tax charge of $64 million associated with restructuring actions announced in February 1998, comprising $50 million for severance and pension costs relating to employment reductions and a writedown of $14 million relating to assets which were affected by the restructuring actions. At December 31, 1999, the remaining liability for restructuring charges, included in accrued payrolls and benefits, was $12 million (1998 – $34 million).

17. CASH FLOWS

Supplemental disclosures in connection with the Consolidated Statement of Cash Flows follow:

Year ended December 31	1999	1998	1997
Interest paid	$ 110	$ 120	$ 113
Income and mining taxes paid, net	$ 42	$ 49	$ 133
Cash at end of year	$ 11	$ 38	$ 40
Marketable securities at end of year	27	44	16
Cash and marketable securities	$ 38	$ 82	$ 56

18. SIGNIFICANT DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Company's consolidated financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. The most significant differences between Canadian and United States GAAP, insofar as they affect the Company's consolidated financial statements, relate to accounting for pension benefits, income and mining taxes, earnings per share, long-term investments, stock-based compensation and reporting of comprehensive income.

The following table reconciles results as reported under Canadian GAAP with those that would have been reported under United States GAAP:

Year ended December 31	1999	1998	1997
Earnings (loss) from continuing operations – Canadian GAAP	$ 22	$ (112)	$ 17
Increased pension expense (a)	–	(8)	(7)
Increased income and mining taxes (b)	(5)	(27)	(11)
Earnings (loss) from continuing operations – United States GAAP	17	(147)	(1)
Discontinued operations (a)	(5)	31	52
Net earnings (loss) – United States GAAP	$ 12	$ (116)	$ 51
Other comprehensive income (loss) (g):			
Foreign currency translation adjustments	–	7	(10)
Unrealized gains (losses) on long-term investments (d)	(12)	6	(12)
Long-term investments reclassifications (d)	6	(4)	–
Minimum additional pension liability adjustment (a)	(17)	(140)	(23)
Taxes on other comprehensive income (loss)	8	59	9
Other comprehensive loss – United States GAAP (g)	(15)	(72)	(36)
Comprehensive income (loss) – United States GAAP (g)	$ (3)	$ (188)	$ 15
Earnings (loss) from continuing operations per share – United States GAAP (c)			
Basic – Common	$ (0.05)	$ (1.05)	$ (0.21)
– Class VBN	$ –	$ 0.08	$ 0.32
Net earnings (loss) per share – United States GAAP (c)			
Basic – Common	$ (0.08)	$ (0.87)	$ 0.10
– Class VBN	$ –	$ 0.08	$ 0.32

(a) Pension benefits United States accounting standards for pension benefits are set forth in Statement of Financial Accounting Standards ("SFAS") No. 87, No. 88 and No. 132. Coincident with the adoption of the United States standards for United States reporting purposes, with effect from January 1, 1986, unamortized reversions of surplus pension funds were included in earnings to the extent that they exceeded the unrecognized net obligation at the date of adoption; whereas, under Canadian GAAP, also with effect from January 1, 1986, the Company amortized such reversions over the expected average remaining service life of existing employees. Earnings from discontinued operations under United States GAAP have been reduced by $5 million in 1998 (1997 – $6 million) in respect of pension reversions. United States GAAP also require the recognition of a minimum additional pension liability in the amount of the excess of the Company's unfunded accumulated benefits obligation over the recorded pension benefits liability; an offsetting intangible pension asset is recorded equal to the unrecognized prior service costs, with any difference recorded as a reduction in accumulated other comprehensive income. At December 31, 1999, the minimum additional pension liability would have been $232 million (1998 – $230 million; 1997 – $46 million), the intangible pension asset would have been $52 million (1998 – $67 million; 1997 – $23 million), resulting in a $105 million reduction, net of taxes (1998 – $96 million; 1997 – $14 million) in accumulated other comprehensive income.

(b) **Income and mining taxes** United States accounting standards for income taxes are set forth in SFAS No. 109. United States GAAP require the liability method for income taxes, whereas Canadian GAAP permit the deferral method. Among other differences, the liability method requires annual adjustment of deferred tax balances to reflect current tax and foreign currency exchange rates, while the deferral method requires such balances to be maintained at the rates of the years when they were first recorded.

The Company's net deferred income and mining tax liability at December 31, 1999, under SFAS No. 109, would have been $2,442 million (1998 – $2,307 million; 1997 – $2,543 million), comprised of $311 million (1998 – $295 million; 1997 – $316 million) in deferred income and mining tax assets, including temporary differences associated with post-retirement benefits and investment tax credits, and $2,753 million (1998 – $2,602 million; 1997 – $2,859 million) in deferred income and mining tax liabilities, due primarily to the grossing up of the cost of the investment in Voisey's Bay and temporary differences in reporting depreciation and depletion on Canadian assets for financial statement and for income and mining tax purposes.

For United States reporting purposes, the investment in Voisey's Bay would be accounted for, under SFAS No. 109, by grossing up the cost of the investment for the underlying tax effects of treating non-deductible acquisition costs as temporary differences with an offsetting credit to deferred income and mining taxes. At December 31, 1999, capital assets and deferred income and mining taxes would have each increased by $2,215 million (1998 – $2,079 million; 1997 – $2,229 million).

(c) **Earnings (loss) per share** United States accounting standards for earnings (loss) per share are set forth in SFAS No. 128. For United States reporting purposes, the Company's Common Shares and Class VBN Shares are considered two separate classes of common equity. The Company has applied the "two-class" method in the computation and presentation of earnings (loss) per share data for United States reporting purposes on the basis of the respective dividend entitlements of the Common Shares and Class VBN Shares. For Canadian reporting purposes, the Class VBN Shares are considered "senior" shares in the calculation of basic earnings (loss) per Common Share. Under United States GAAP, earnings (loss) per Class VBN Share and per Common Share, on a fully diluted basis, were the same as basic earnings (loss) per share for both classes of shares.

(d) **Long-term investments** United States accounting standards for equity investments, which are set forth in SFAS No. 115, require that certain equity investments not held for trading be recorded at fair value with unrealized holding gains and losses excluded from the determination of earnings and reported as a separate component of other comprehensive income. At December 31, 1999, long-term investments and shareholders' equity would have each decreased by $12 million (1998 – decrease of $6 million; 1997 – decrease of $8 million).

(e) **Stock-based compensation** United States accounting standards for stock-based compensation are set forth in SFAS No. 123. United States GAAP require either the recognition of a compensation expense for grants of stock, stock options and other equity instruments to employees, based on the estimated fair value of the instrument at the grant date, or, alternatively, the disclosure of pro forma net earnings and earnings per share data as if stock-based compensation had been recognized in earnings. Under SFAS No. 123, had the Company elected to recognize the cost of its stock-based compensation based on the estimated fair value of stock options granted, the Company's pro forma net earnings in 1999 would have decreased by $4 million ($0.02 per share), the loss in 1998 would have increased by $5 million ($0.03 per share) and net earnings in 1997 would have decreased by $7 million ($0.04 per share).

(f) **Preferred shares** For United States reporting purposes, the Company's Preferred Shares Series E would be excluded from shareholders' equity on the Consolidated Balance Sheet.

(g) **Comprehensive income** United States accounting standards for reporting comprehensive income are set forth in SFAS No. 130. Comprehensive income represents the change in equity during a reporting period from transactions and other events and circumstances from non-owner sources. Components of comprehensive income include items such as net earnings (loss), changes in the fair value of investments not held for trading, minimum pension liability adjustments and certain foreign currency translation gains and losses.

(h) **Other** The Company intends to adopt SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" in the first quarter of 2001 for United States reporting purposes. The Company is currently evaluating various implementation issues and is, therefore, not able to determine whether or not the adoption of SFAS No. 133 will have a material effect on the Company's financial position or results of operations.

The following table compares the Company's results reported under Canadian GAAP with those that would have been reported under United States GAAP, together with the cumulative effect on balance sheet accounts. Quarterly results are unaudited.

	Canadian GAAP			United States GAAP		
Year ended December 31	1999	1998	1997	1999	1998	1997
Net earnings (loss)						
First quarter	$ (16)	$ (41)	$ 58	$ (22)	$ (60)	$ 52
Second quarter	(1)	2	16	(23)	(2)	18
Third quarter	7	(24)	5	17	(29)	2
Fourth quarter	27	(13)	(4)	40	(25)	(21)
Year	$ 17	$ (76)	$ 75	$ 12	$ (116)	$ 51
Net earnings (loss) per common share						
Basic and fully diluted	$ (0.05)	$ (0.63)	$ 0.25	$ (0.08)	$ (0.87)	$ 0.10

	Canadian GAAP			United States GAAP		
December 31	1999	1998	1997	1999	1998	1997
Assets:						
Current deferred income and mining taxes	$ 64	$ 53	$ 32	$ 49	$ 46	$ 24
Capital assets	6,250	6,241	6,252	8,465	8,320	8,481
Long-term investments	82	84	86	70	78	78
Net post-retirement benefits asset	67	70	37	52	67	27
Liabilities:						
Deferred income and mining taxes	191	186	278	2,416	2,286	2,559
Net post-retirement benefits liability	–	–	–	165	160	–
Shareholders' equity:						
Retained earnings	637	646	766	536	550	710
Cumulative currency translation adjustments	–	–	(7)	–	–	–
Accumulated other comprehensive loss	–	–	–	(116)	(101)	(29)

Eleven-Year Review

	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
						(Restated)[2]					
SUMMARY OF OPERATIONS[1]											
(in millions of United States dollars except per share data)											
Net sales	**$ 2,113**	1,766	2,367	2,460	2,764	1,935	1,619	2,002	2,346	2,420	3,252
Cost of sales and operating expenses	**$ 1,845**	1,735	2,051	1,912	2,098	1,742	1,498	1,656	1,893	1,571	1,722
Selling, general and administrative	**$ 99**	96	109	111	116	104	109	116	120	115	120
Interest	**$ 73**	86	81	85	88	89	99	112	117	109	135
Income and mining taxes	**$ 21**	(94)	30	107	177	(67)	(13)	28	12	209	493
Net earnings (loss)	**$ 17**	(76)	75	179	227	7	13	(18)	83	441	753
Net earnings (loss) applicable to common shares	**$ (9)**	(104)	41	157	215	3	9	(22)	78	436	748
Per common share – basic	**$ (0.05)**	(0.63)	0.25	1.17	1.82	0.03	0.08	(0.21)	0.74	4.18	7.11
Common dividends declared	**$ –**	16	67	51	47	47	44	92	105	104	90
Per common share	**$ –**	0.10	0.40	0.40	0.40	0.40	0.40	0.85	1.00	1.00	0.85
Common shares outstanding (weighted-average, in millions)	**176**	166	167	134	118	116	110	108	105	104	105
OTHER FINANCIAL DATA[1]											
(in millions of United States dollars)											
Cash provided by (used for) operating activities	**$ 128**	174	243	378	631	230	(20)	402	265	361	697
Capital expenditures	**$ 260**	437	535	425	304	126	168	216	404	518	348
Depreciation and depletion	**$ 248**	244	226	240	227	224	216	224	206	181	166
Research and development	**$ 21**	18	28	23	21	29	34	37	45	41	32
Exploration	**$ 23**	29	38	40	32	25	32	33	40	46	56
Working capital	**$ 323**	314	690	805	766	905	678	598	508	635	591
Capital assets	**$ 6,250**	6,241	6,252	6,010	2,507	2,440	2,507	2,576	2,598	2,450	2,078
Total assets	**$ 7,369**	7,342	7,772	7,642	4,693	4,028	3,902	4,161	4,495	4,076	3,666
Total debt	**$ 1,344**	1,523	1,549	1,290	974	993	1,059	1,141	1,270	1,008	1,007
Preferred shares	**$ 471**	471	471	471	387	56	60	63	66	69	73
Common shareholders' equity	**$ 3,384**	3,112	3,225	3,268	1,601	1,450	1,304	1,608	1,668	1,648	1,289
Return on year-end common shareholders' equity	**–**	–	1.3%	4.8%	13.4%	0.2%	0.7%	–	4.7%	26.5%	58.0%
Total debt : equity ratio	**23:77**	26:74	26:74	22:78	33:67	40:60	44:56	41:59	42:58	37:63	42:58
OPERATING DATA											
Ore mined (tonnes in millions)	**13**	14	14	16	16	13	14	14	15	15	16
Nickel production (tonnes in thousands)	**177**	192	179	187	183	156	167	182	174	176	194
Copper production (tonnes in thousands)	**116**	121	103	117	109	87	118	107	111	115	123
Nickel deliveries (tonnes in thousands)	**258**	253	266	253	270	235	212	215	230	222	233
Copper deliveries (tonnes in thousands)	**120**	133	138	142	117	105	112	111	115	111	126
Cobalt deliveries (tonnes)	**1,568**	2,004	2,295	1,846	1,712	1,304	1,297	1,402	1,393	1,447	1,456
Platinum-group metals deliveries (troy ounces in thousands)	**347**	334	263	294	298	249	289	314	332	300	331
REALIZED PRICES PER TONNE (U.S.$)											
Primary nickel, including intermediates	**$ 6,415**	5,291	7,407	7,959	8,510	6,614	5,997	7,452	8,466	9,039	12,368
Copper	**$ 1,631**	1,852	2,359	2,469	2,844	2,381	1,940	2,271	2,359	2,601	2,690
OTHER STATISTICS											
Employees at year-end	**10,198**	11,007	14,278	16,308	15,818	15,709	16,337	17,724	18,369	19,387	19,337
Common shareholders at year-end	**22,481**	23,401	23,382	24,819	26,075	28,691	31,224	33,345	36,009	37,565	39,217

1 Certain information for the years 1989 through 1996 has been reclassified to reflect the results of the Company's former alloys and engineered business segments as discontinued operations (see Note 3 of the Notes to Consolidated Financial Statements).

2 Certain information for 1994 and 1993 has been restated to reflect the retroactive application of accrual accounting in respect of post-retirement benefits other than pensions. Years prior to 1993 have not been restated because the impact of the change in accounting policy is not reasonably determinable.

Quarterly Financial Information

(U.S.$ in millions except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1999					
Net sales	**$ 438**	**$ 501**	**$ 543**	**$ 631**	**$ 2,113**
Cost of sales and operating expenses	**$ 417**	**$ 443**	**$ 466**	**$ 519**	**$ 1,845**
Earnings (loss) before income and mining taxes and minority interest	**$ (29)**	**$ –**	**$ 21**	**$ 60**	**$ 52**
Earnings (loss) from continuing operations	**$ (16)**	**$ (1)**	**$ 12**	**$ 27**	**$ 22**
Net earnings (loss)	**$ (16)**	**$ (1)**	**$ 7**	**$ 27**	**$ 17**
Net earnings (loss) per common share – basic and fully diluted	**$ (0.13)**	**$ (0.05)**	**$ 0.01**	**$ 0.12**	**$ (0.05)**
1998					
Net sales	$ 500	$ 494	$ 369	$ 403	$ 1,766
Cost of sales and operating expenses	$ 525	$ 448	$ 356	$ 406	$ 1,735
Loss before income and mining taxes and minority interest	$ (88)	$ (6)	$ (45)	$ (59)	$ (198)
Loss from continuing operations	$ (47)	$ (6)	$ (26)	$ (33)	$ (112)
Net earnings (loss)	$ (41)	$ 2	$ (24)	$ (13)	$ (76)
Loss per common share – basic and fully diluted	$ (0.29)	$ (0.03)	$ (0.18)	$ (0.13)	$ (0.63)

Investor Information

Canadian federal tax legislation, in conjunction with applicable tax treaties, generally requires a 15 per cent withholding from dividends paid to the Company's shareholders resident in the United States, the United Kingdom and most western European countries. Similarly, depending upon applicable tax treaties, dividends paid to other non-residents of Canada are subject to a withholding tax at a maximum rate of 25 per cent. Interest payable on the Company's debt securities held by non-Canadian residents may also be subject to Canadian withholding tax, depending upon the terms and provisions of such securities and any applicable tax treaties.

The Company's Common Shares, Class VBN Shares and Preferred Shares Series E have general voting rights. At shareholders' meetings, each holder of these securities is entitled, subject to certain adjustments in the case of the Class VBN Shares and Preferred Shares Series E, to one vote for each share held and there are no cumulative voting provisions.

Subject to the preferential rights of the holders of the Company's Preferred Shares and any other prior ranking shares, the holders of Common Shares and Class VBN Shares are entitled to such dividends as may be declared by the Board of Directors out of funds legally available therefor. No dividends or other distribution in Common Shares or Class VBN Shares shall be paid, and no Common Shares or Class VBN Shares shall be acquired for value, unless dividends on all outstanding Preferred Shares have been paid for all past quarterly periods. There are no charter or contractual provisions expressly limiting either the amount of cash dividends which the Company may declare and pay on its Common Shares or Class VBN Shares or the right of non-residents of Canada to hold or vote any of the voting securities of the Company.

There are certain restraints on the holding of Inco's voting equity securities. The Investment Canada Act (the "Act") limits the number of shares of a Canadian corporation that may be acquired by a non-Canadian without approval under the Act. The effect of the Act is to prohibit the acquisition of control by a non-Canadian of certain Canadian businesses, such as the Company, unless such acquisition is found by the responsible Minister of the Government of Canada to be of net benefit to Canada.

Through subsidiaries and affiliates, the Company's operations are conducted in numerous countries and some $ 1,700 million of the Company's consolidated total assets are located outside Canada and the United States. Accordingly, operations are subject to various governmental policies or regulations and changes therein and the risks associated with doing business in many overseas locations.

At year-end 1999, of the shareholders having general voting rights, 63 per cent had addresses in Canada, 28 per cent in the United States and nine per cent elsewhere. Of the Company's voting securities, Canadian residents of record held 46 per cent, United States residents of record 53 per cent and residents of record in other countries one per cent.

Corporate Governance

The Board of Directors consists of 14 members, two of whom are officers of the Company. In 1999, the Board held 13 meetings. The activities of the Board are supported by its various committees.

EXECUTIVE COMMITTEE

The Executive Committee consists of Dr. Sopko, Chairman, and Messrs. Crawford, Hand, Hantho and Thomson. During the intervals between meetings of the Board, the Executive Committee, with certain exceptions, has all the powers vested in the Board. There were no Executive Committee meetings held in 1999.

CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

The Corporate Governance and Nominating Committee held five meetings in 1999. This committee has responsibility for reviewing and making recommendations with respect to developments in the area of corporate governance. As part of its responsibilities, it also makes recommendations to the Board with respect to candidates for nomination as new Board members, evaluates and recommends nominees for all Board Committees, recommends incumbent Directors for nomination as continuing Board members, and oversees Board tenure, compensation and resignation policies. It also annually evaluates the overall performance of the Board. This committee also evaluates nominations submitted by shareholders for election to the Board of Directors. This committee currently has the following members: Mr. Crawford, Chairman, Dr. Bruneau and Messrs. Barton and O'Brien. The Chairman and Chief Executive Officer of the Company serves as an ex-officio and non-voting member of the committee.

PENSION COMMITTEE

The Pension Committee, which held two meetings during 1999, consists of Mr. Hantho, Chairman, Mrs. Erola and Messrs. Glavin and Harquail. This committee advises the Board regarding the financial aspects of the pension programs of the Company and its subsidiaries, including actuarial assumptions, the adequacy of funding and the implementation of sound investment policy.

MANAGEMENT RESOURCES AND COMPENSATION COMMITTEE

The Management Resources and Compensation Committee, which held three meetings during 1999, consists of Mr. Thomson, Chairman, and Messrs. Crawford, O'Brien, Mercaldo and Stanford. This committee advises and consults with the Chairman of the Board and makes recommendations to the Board on the remuneration of senior executives of the Company and on the Company's various incentive plans. The committee also reviews the management development programs and the succession plans relating to senior management.

AUDIT COMMITTEE

The Audit Committee, which held four meetings during 1999, consists of Mr. Glavin, Chairman, Ms. Clitheroe, Mrs. Erola and Messrs. Barton and Mercaldo. This committee meets with the Company's financial management personnel, its internal auditors and its independent auditors at least three times a year to review and appraise the Company's financial reporting practices and procedures, the adequacy of the system of internal accounting control, the planned scope of examinations by both auditing groups and their findings and recommendations. It also reviews the Company's consolidated financial statements and monitors various other internal control policies.

Directors

Glen A. Barton
Chairman and Chief Executive Officer
Caterpillar Inc.
(heavy equipment manufacturer)
Peoria, Illinois, U.S.A.

Angus A. Bruneau, O.C.
Chairman
Fortis Inc.
(energy, utilities and services)
St. John's, Newfoundland, Canada

Eleanor R. Clitheroe
President and Chief Executive Officer
Ontario Hydro Services Company
(transmission, distribution and energy services)
Toronto, Ontario, Canada

Purdy Crawford, O.C., Q.C.
Former Chairman
Imasco Limited
(consumer products and services corporation)
Toronto, Ontario, Canada

The Honourable Judith A. Erola, P.C.
Retired President
Pharmaceutical Manufacturers Association of Canada
Ottawa, Ontario, Canada

William F. Glavin
President Emeritus
Babson College
Wellesley, Massachusetts, U.S.A.

Scott M. Hand
President
Inco Limited
Toronto, Ontario, Canada

Charles H. Hantho, C.M.
Chairman
Dofasco Inc.
(producer of iron, primary steel and finished steel products)
Hamilton, Ontario, Canada

David E. Harquail
Class VBN Director
Senior Vice-President
Franco-Nevada Mining Corporation Limited
(precious metals royalty)
Toronto, Ontario, Canada

Edward L. Mercaldo
Class VBN Director
Private Investor
Del Mar, California, U.S.A.

David P. O'Brien
Chairman, President and Chief Executive Officer
Canadian Pacific Limited
(transportation, energy, real estate and hotels)
Calgary, Alberta, Canada

Michael D. Sopko
Chairman and Chief Executive Officer
Inco Limited
Toronto, Ontario, Canada

James M. Stanford
Chairman
Petro-Canada
(integrated oil and gas)
Calgary, Alberta, Canada

Richard M. Thomson, O.C.
Retired Chairman and Chief Executive Officer
The Toronto-Dominion Bank
Toronto, Ontario, Canada

Officers of the Company and Subsidiary Units

Michael D. Sopko*
Chairman and
Chief Executive Officer

Scott M. Hand*
President

EXECUTIVE VICE-PRESIDENTS

Stuart F. Feiner*
General Counsel and Secretary

Peter J. Goudie*
Marketing

Peter C. Jones*
Operations

Anthony E. Munday*
Chief Financial Officer

VICE-PRESIDENTS

Lorne M. Ames
Human Resources

Wm. Gordon Bacon
Technology and Engineering

Bruce R. Conard
Environmental and
Health Sciences

W. Charles Ferguson
Environment, Health and Safety

Robert A. Horn
Exploration

Donald T. Hurley
Treasurer

John B. Jones
Inco Special Products

Ronald A. Lehtovaara
Comptroller

Alan C. Stubbs*
Public and Government Affairs

OPERATIONS AND REGIONAL OFFICERS

Ronald C. Aelick
President
Ontario Division

Melvin V. Wyshynski
President
Manitoba Division

Rumengan Musu
President and
Chief Executive Officer
PT International Nickel
Indonesia Tbk

Edward W. Hodkin
Senior Vice-President and
Chief Operating Officer
PT International Nickel
Indonesia Tbk

R. Allan Bale
Production Director
Inco Europe Limited

Peter G. Garritsen
Président and Directeur Général
Goro Nickel S.A.

A. Stewart Gendron
President
Voisey's Bay Nickel
Company Limited

David J. Anderson
President
International Nickel, Inc.

C.M. (James) Shih
President
Inco Asia Limited and
Inco Pacific Sales Limited

Shozo Kawaguchi
President and
Representative Director
Inco TNC Limited

Ivor Kirman
Marketing Director
Inco Europe Limited

Richard L. Guido
President
Inco United States, Inc.

Kenneth L. Money
President
The International Metals
Reclamation Company, Inc.

* Member of Management Committee

Inco Worldwide

EXECUTIVE OFFICE

145 King Street West, Suite 1500
Toronto, Ontario M5H 4B7
Canada
(416) 361-7511
e-mail: inco@inco.com
web site: www.inco.com

PRIMARY METALS

Principal Operating Units

Ontario Division
Copper Cliff, Ontario, Canada
Port Colborne, Ontario, Canada

Clydach Refinery
Clydach, Swansea, Wales

Acton Refinery
London, England

Manitoba Division
Thompson, Manitoba, Canada

PT International Nickel
Indonesia Tbk
Soroako, Indonesia
59% owned

Inco TNC Limited
Matsuzaka, Japan
67% owned

Principal Sales Offices

Inco Limited
Toronto, Ontario, Canada
(416) 361-7511

International Nickel, Inc.
Saddle Brook, New Jersey
U.S.A.
(201) 843-8600

Upland, California
U.S.A.
(909) 946-2111

Inco Europe Limited
London, England
(44) 171-931-7733

International Nickel GmbH
Düsseldorf, Germany
(49) 211-17396-0

Inco TNC Limited
Tokyo, Japan
(81) 33-245-0621

Inco Asia Limited
Hong Kong, People's
Republic of China
(852) 2521-2333
Bangkok, Thailand▲
(66) 2-285-4414
Shanghai,
People's Republic of China▲
(86) 21-6249-2100
Kaohsiung, Taiwan*
(886) 7-787-0320
Bridgetown, Barbados
(246) 228-0468

OTHER SUBSIDIARIES AND UNITS

Inco Special Products
Toronto, Ontario, Canada
(416) 361-7858

Inco United States, Inc.
Saddle Brook, New Jersey
U.S.A.
(201) 843-8600

Novamet Specialty Products
Corporation
Wyckoff, New Jersey
U.S.A.
(201) 891-7976

The International Metals
Reclamation Company, Inc.
Ellwood City, Pennsylvania
U.S.A.
(724) 758-5515

Exploraciones Y Explotaciones
Mineras Izabal, S.A. (Exmibal)
Guatemala
70% owned

Compagnie des Mines de Xere (CMX)
Paris, France
85% owned

Goro Nickel S.A.
Noumea, New Caledonia
100% owned by CMX

Jinco Nonferrous Metals Co., Ltd.
Kunshun, People's Republic of China
65% owned

Ingold Holdings Indonesia Inc.
Jakarta, Indonesia

Voisey's Bay Nickel
Company Limited
St. John's, Newfoundland
and Labrador, Canada
(709) 758-8888

▲ Representative Office
* Branch Office

Shareholder Information

SHAREHOLDER INQUIRIES

CIBC Mellon Trust Company is the registrar, transfer agent and disbursing agent for the Common, Series E Preferred and Class VBN Shares of Inco Limited. As such, it handles all dividend disbursing and shareholder recordkeeping functions for Inco shareholders, including activities related to the Company's Optional Stock Dividend Program and Share Purchase Plan.

Shareholders with inquiries should contact:

CIBC Mellon Trust Company
P.O. Box 7010, Adelaide Street Postal Station
Toronto, Ontario M5C 2W9

Phone: (416) 643-5500
1-800-387-0825
(North America)
Facsimile: (416) 643-5501
e-mail: inquiries@cibcmellon.ca
web site: www.cibcmellon.ca

TRANSFER AGENTS AND REGISTRARS

CIBC Mellon Trust Company
Toronto, Montreal and Vancouver, and London, England
ChaseMellon Shareholder Services, L.L.C., New York

COMMON SHARES TRADED ON SEVEN MAJOR INTERNATIONAL STOCK EXCHANGES

Ticker Symbol	
Toronto	N
New York	N
London	N
Paris	INCL
Swiss	N
Brussels	NT
Frankfurt	INC

Toronto

Common Shares: N
Series E Preferred Shares: N. Pr. U
Class VBN Shares: N. V

New York

Common Shares: N
Series E Preferred Shares: N. Pr. E
Class VBN Shares N. VB

INDEX LISTINGS

S & P 500
TSE 35 Official
TSE 100
TSE 300
S & P/TSE 60
TSE Metal & Mine
S & P Metals – Misc.

Number of Common Shareholders
(December 31, 1999)

22,481

COMMON SHARES

(millions)

Outstanding at December 31, 1999	182
Weighted-average: basic and fully diluted	176

VOLUME OF COMMON SHARES TRADED

(millions)	1999	1998
TSE	220	148
NYSE	160	113

Closing Price of Common Shares
(December 31, 1999)

TSE	Cdn.$ 33.75
NYSE	U.S.$ 23.50

INVESTOR RELATIONS

For information contact:

Sandra E. Scott
Director, Investor Relations
Phone: (416) 361-7758
Facsimile: (416) 361-7736
e-mail: sescott@inco.com

Corporate Information

CORPORATE ADDRESS

Inco Limited
145 King Street West
Suite 1500
Toronto, Ontario
Canada M5H 4B7

For general inquiries or additional copies of this 1999 Annual Report, contact:

Phone: (416) 361-7511
Facsimile: (416) 361-7781
e-mail: inco@inco.com
Web site: www.inco.com

MEDIA RELATIONS

For information contact:
Jerry Rogers
Director, Corporate Public Affairs
Phone: (416) 361-7754
Facsimile: (416) 361-7736
e-mail: jrogers@inco.com

ANNUAL MEETING

The Company's Annual General Meeting of Shareholders will be held at 10:00 a.m. on April 19, 2000 at The Design Exchange in Toronto, Canada.

RAPPORT ANNUEL

La version française du Rapport annuel sera fournie en ligne à www.inco.com

10-K REPORT AVAILABLE

A copy of the 1999 Annual Report on Form 10-K, filed with the United States Securities and Exchange Commission, may be obtained by writing to:
The Secretary, Inco Limited
145 King Street West, Suite 1500
Toronto, Ontario M5H 4B7

Cautionary Statement Regarding Forward-Looking Statements

Certain statements are contained in this Annual Report under "Leveraging Market Conditions"; "Reducing Our Costs"; "Growing Low-Cost Production"; "Building Our Specialty Products Business"; "Improving Financial Performance"; "Performance Scorecard"; "Performance, Strategy and Outlook" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" with respect to projections for nickel demand, nickel, copper and cobalt production, sales of special products, the Company's position as a low-cost producer of nickel, cost reduction and other financial and operating objectives for 2000, the timing of construction and production at the Voisey's Bay and Goro projects and unit cash costs for PT Inco and Goro, and certain other mine development projects, potential reserves and resources and grades of nickel, copper and cobalt, production, research and development initiatives and other statements (as defined in the U.S. Securities Exchange Act of 1934). Inherent in these statements are risks and uncertainties well beyond the Company's ability to control or predict. Future results may differ materially from projected results depending upon such factors as actual supply and demand for the Company's products, metal price fluctuations, production levels, research and development, engineering and construction timetables, financing arrangements, the timing of receipt of governmental and other regulatory approvals, market competition, and labour relations.

STRATEGIC BRAND CONSULTANTS: TUDHOPE PHOTOGRAPHY: TIM PELLING, BERNARD BOHN

INCO

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